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ABSTRACT

This report from the Department of Education's (ED) Office of Inspector General (OIG) focuses on ED's information technology and Year 2000 readiness. It also reviews elementary and secondary education and student financial-assistance programs to ensure that ED programs are administered with efficiency, effectiveness, and integrity. A review of ED's information technology showed that ED made significant progress in preparing for the Year 2000 and has reported that all mission-critical systems were renovated, tested, and implemented by March 31, 1999. The review also revealed that security in the Grants Administration and Payment System was enhanced and that ED's management of the system-development process could be improved. The audit highlights efforts associated with reauthorization of the Elementary and Secondary Education Act and the proposed Education Flexibility Partnership Act of 1999; assessments in student- financial assistance, including a study of cost issues in federal-loan programs; results from a congressional initiative to improve federal management; and audit-resolution practices and quality initiatives, such as the Cooperative Audit Resolution and Oversight initiative, which is a collaborative method whereby states and the ED work together to solve recurring problems. Two abstracts list significant audits and audit-related activities and important prosecutive actions resulting from OIG investigations. (RJM)

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ED 432 065

U.S. Department of Education

Office of Inspector General

Semiannual Report to Congress No. 38

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October 1, 1998 — March 31, 1999

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U.S. Department of Education

Office of Inspector General

Semiannual Report to Congress

No. 38

October 1, 1998 — March 31, 1999

UNITED STATES DEPARTMENT OF EDUCATION

OFFICE OF INSPECTOR GENERAL

April 28, 1999

Honorable Richard W. Riley
Secretary of Education
Washington, DC 20202

Dear Mr. Secretary:

I am pleased to submit this Semiannual Report on the activities of the Department's Office of Inspector General (OIG) for the six-month period ending March 31, 1999. Submission of this report is in accordance with section 5 of the Inspector General Act of 1978 (Public Law 95-452, as amended). The Act requires that you transmit this report within thirty days to the appropriate congressional committees and subcommittees, along with any comments you may wish to make.

Our efforts this period continued to advance both OIG's and the Department's mission and goals, through a carefully designed program of audits, investigations and reviews intended to help managers administer their programs and carry out their oversight responsibilities more efficiently, effectively and economically. We have continued to monitor closely the Department's progress toward Year 2000 readiness, and performed risk assessments for the information systems involved in the delivery of student financial aid to ensure that the Department is on track to achieve Year 2000 readiness for systems supporting the student aid programs.

I look forward to continuing to work with you and Department managers as we seek to ensure the efficiency, effectiveness and integrity of the Department's programs and operations.

Sincerely,

John P. Higgins, Jr.
Acting Inspector General

Enclosure

600 INDEPENDENCE AVE., S.W. WASHINGTON, D.C. 20202-1510

Our mission is to ensure equal access to education and to promote educational excellence throughout the Nation.

Inspector General's
MESSAGE TO CONGRESS

To achieve our mission of promoting efficient and effective use of taxpayer dollars that support American education, for the last six months we have continued to provide independent and objective assistance to the Congress and the Secretary.

Our reviews of the Department's Year 2000 readiness and related matters have provided the Department independent and objective evaluations. These evaluations have helped managers focus essential resources on the Department's most critical information technology challenges. The Department has made significant progress in recent months, reporting that it renovated, tested and implemented all its mission-critical systems by the March 31, 1999 deadline set by the Office of Management and Budget. Remaining potential risk areas, which the Department is currently addressing, include: end-to-end testing, contingency planning, trading partner readiness, and new system functionality.

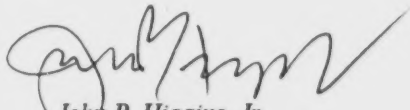
Although the Department has made a number of improvements in its information technology systems, it is not implementing key provisions of the Clinger-Cohen Act. Full compliance will require implementing a capital planning and investment control process, as well as a systems information technology architecture.

In conjunction with the 1999 reauthorization of the Elementary and Secondary Education Act (ESEA), we issued a "Perspective Paper" recommending that the new ESEA: 1) contain clearly written statutory language, 2) include only essential requirements, and 3) incorporate necessary controls to ensure data validity and reliability under the Government Performance and Results Act of 1993. We also used the recommendations from the Perspective Paper to provide monitoring and reporting provisions for the proposed Education Flexibility Partnership Act of 1999 (Ed-Flex).

Based on our audit findings and investigative experience involving fraud by student financial aid consultants, we made a legislative recommendation to require the Department to perform an Internal Revenue Service income data match for student financial aid applicants and their parents. Congress included this recommendation in section 483 of the Higher Education Amendments of 1998; however, we are concerned that to date this provision has not been implemented.

We previously reported that our audit of the Department's financial statements, mandated to have been completed by March 1999, would be delayed because the Department's financial records were not ready for audit. We only recently received the Department's trial balance and financial statements, and now expect to complete the audit in October, rather than August as previously reported.

We look forward to continuing to work with Congress and Departmental managers in the coming months. We will continue to work to ensure the efficiency, effectiveness and integrity of federal education programs.



John P. Higgins, Jr.
Acting Inspector General

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EXECUTIVE SUMMARY

During the six-month period covered by this report, the Office of Inspector General (OIG) continued to direct its activities and resources to the most critical issues facing the Department. Our audit efforts this period focused on information technology emphasizing Year 2000 reviews. In the area of elementary and secondary education, we issued *An OIG Perspective on the Reauthorization of the Elementary and Secondary Education Act* [ESEA], which reflects our most recent work in reviewing ESEA programs. We also performed other reviews in elementary and secondary education and student financial assistance programs stressing accountability issues, to ensure that Department of Education (ED) programs are administered with efficiency, effectiveness and integrity.

To more clearly delineate the strategic focus of our efforts during the period, the accomplishments highlighted in this Executive Summary are organized according to the goals of our Strategic Plan. More detailed descriptions of these and other OIG work products and activities may be found in Abstract 1, *Significant Audits and Audit-related Activities*, and Abstract 2, *Significant Prosecutive Actions Resulting from OIG Investigations.*

GOAL 1: PROGRAMS AND OPERATIONS IMPROVEMENT

OIG products and services are used by the Department of Education, Congress and other interested parties to improve the efficiency, effectiveness and integrity of education programs and operations.

INFORMATION TECHNOLOGY

OIG continued to focus efforts on the Department's management of information technology. During this period, we closely monitored the Department's progress toward Year 2000 readiness and performed readiness assessments at guaranty agencies and other external trading partners. We also continued our reviews of the Grants Administration and Payment System and concluded audits on the development of the Postsecondary Education Participants System and the Direct Loan Origination and Consolidation Systems.

♦ YEAR 2000 READINESS

The Department made significant progress in preparing for the Year 2000 and has reported that all mission-critical systems were renovated, tested and implemented by the March 31, 1999 deadline set by the Office of Management and Budget. During this period, OIG monitored the progress of the Department's renovation

effort and reported on the readiness of several guaranty agencies and other trading partners.

- ***Title IV programs risk assessment (S11-80014)***

In January 1999, we completed a Year 2000-readiness risk assessment for the 13 mission-critical systems involved in the delivery of student financial aid. We reported that, except for minor issues, the work of independent verification and validation contractors supported the Department's conclusion that 10 of the 13 systems were renovated, validated and implemented. We also reported that the Department was on track to achieve Year 2000 readiness for systems supporting student financial aid programs, contingent on its ability to adequately address four risk areas: 1) completion of end-to-end testing, 2) readiness of external trading partners, 3) completion of contingency planning, and 4) monitoring of new systems development.

- ***"Funding the Year 2000 Conversion, A Report on ED's Y2K Cost Estimates" (ACN 11-80011)***

We were unable to determine that the Department's August 1998 estimated Year 2000 project costs of $38 million were reasonable because the Department did not follow prescribed methodologies or update estimates to reflect actual expenditures. Additionally, there was uncertainty associated with the cost of contingency plans that had not yet been developed. The Department did not receive significant funding earmarked for the Year 2000 readiness effort and therefore paid Fiscal Year 1998 Year 2000-related contract costs with existing appropriations. The absence of a capital planning and investment control process, required by the Clinger-Cohen Act, prevented us from evaluating the impact that funding the Year 2000 readiness project had on other Departmental operations. We recommended improvements to the estimation process and the development of a funding strategy to ensure that future costs, including contingencies, are sufficiently funded.

- ***Readiness of trading partners***

We conducted reviews of Year 2000 readiness at selected Department trading partners and communicated the results to the Department to assist in its development of contingency plans. During this period, we completed reviews at four guaranty agencies and one public school district. Generally, we found the progress at these entities to be satisfactory, except for one guaranty agency that we assessed as cautionary. Issues identified at some of these agencies were similar to those facing the Department: 1) data exchanges, 2) contingency planning, and 3) risks associated with new systems. We will be working with the Department to assess the Year 2000 readiness at additional guaranty agencies.

Ongoing reviews at two student financial aid servicers disclosed concerns about their Year 2000 readiness. These servicers administer Title IV programs for hundreds of schools. Due to the time constraints of the Year 2000 issue and the potential impacts of servicer failures, we immediately communicated our preliminary concerns to the Department. We provided recommendations to the

Department on how to mitigate the risks associated with potential Year 2000-related failures at student financial aid servicers.

- ***Ongoing monitoring of the Year 2000 Project***

OIG continues to monitor the Department's progress in preparing for the Year 2000. OIG regularly attends meetings and advises the Year 2000 Steering Committee established by the Acting Deputy Secretary. At the request of the Department, OIG participated in contingency planning meetings and reviewed documentation supporting the reported implementation of a sample of mission important and mission supportive systems. In June 1999, OIG will report on our review of the Department's Year 2000 compliance for the processing, delivery and administration of Title IV programs as required by the Higher Education Act.

- **GRANTS ADMINISTRATION AND PAYMENT SYSTEM (GAPS)**

The GAPS system is a core component of the Department's new Central Automated Processing System. During this period, we worked with the Department to resolve all 45 GAPS system security findings reported during the previous semiannual period. Additionally, we conducted two reviews on the GAPS reconciliation process. This process is an essential control which ensures that expenditures and account balances are correct.

We found that although the Office of the Chief Financial/Chief Information Officer (OCF/CIO) had closed out a backlog of hotline calls from recipients concerning reconciliation problems, many of the recipients remained unreconciled. If those records remain unreconciled, it is likely that errors will be recorded in new grant accounts. In a follow-up review, we found that the OCF/CIO made a genuine effort to respond to written requests for reconciliation adjustments. However, we noted several weaknesses in the Department's controls over the reconciliation process.

- **SYSTEM DEVELOPMENT**

We completed two audits of the Department's management of the system development process.

- ***"Audit of the Postsecondary Education Participants System (PEPS) Development" (ACN 11-70002)***

The PEPS system is a mission-critical system designed to assist the Office of Student Financial Assistance Programs in meeting its responsibility to manage and monitor all organizations that participate in the delivery of federal student financial assistance programs. We found that the system encountered delays and suffered from inadequate attention to data integrity problems during its early years. Despite these problems, users generally expressed the opinion that the system will serve the Department well when fully implemented. We identified three areas where the Department's systems development processes could be improved: 1) implementation of capital planning provisions of the Clinger-Cohen

Act, 2) assuring the quality and completeness of data, and 3) strengthening controls over information technology contracting.

– *"Direct Loan Origination and Consolidation Systems" (ACN 11-70010)*

The objectives of our audit were to determine whether the Department adequately defined its requirements for these systems and whether the Department adequately tested requirements prior to system start-up. We found that the requirements were not adequately defined or tested prior to system start-up. The body of our report details findings specific to the development and implementation of these systems. However, the recommendations presented address general control weaknesses, and provide suggestions that can be used to improve the Department's future systems development and implementation processes overall to avoid the difficulties and delays encountered here.

ELEMENTARY AND SECONDARY EDUCATION

OIG has been involved in efforts to improve the effectiveness of school districts' use of federal education funds. This period saw the issuance of two products that could have an impact on the reauthorization of the Elementary and Secondary Education Act: 1) *An OIG Perspective on the Reauthorization of the Elementary and Secondary Education Act* and 2) an audit, *Safe and Drug Free Schools: Increasing Accountability and Preserving Flexibility.* OIG also participated in Improving America's Schools conferences held last fall, and provided input to Congress concerning the proposed Education Flexibility Partnership Act of 1999.

- **REAUTHORIZATION OF THE ELEMENTARY AND SECONDARY EDUCATION ACT**

  – *"An OIG Perspective on the Reauthorization of the Elementary and Secondary Education Act" (S14-80010)*

In anticipation of the 1999 reauthorization of the Elementary and Secondary Education Act (ESEA), OIG conducted audits and reviews, actively engaged in the Cooperative Audit Resolution and Oversight Initiative, and participated in Department work teams, Program Coordination Review teams and ESEA-related conferences. Using these audits and reviews, as well as our experience with related ESEA initiatives, we developed a paper to provide our perspective on the ESEA reauthorization.

Based on our experience with ESEA programs, we concluded that the reauthorized ESEA should be written in "plain language" to ensure the uniform interpretation and implementation of the law and include only the essential requirements needed to achieve desired program results. This paper provides a set of three "common sense" tests for determining necessary and comprehensible compliance requirements and how they might be formulated to incorporate the requirements of the Government Performance and Results Act of 1993. We further recommended minimum standards for state education agency monitoring

of ESEA programs, and suggested a stronger role for the Department of Education in the oversight of ESEA program integrity. The paper also provides a compendium of pertinent audit results with recommendations for legislative changes. This paper is designed to assist the Department and Congress in determining needed revisions, additions and/or deletions to the ESEA.

- ***"Safe and Drug Free Schools: Increasing Accountability and Preserving Flexibility" (ACN 03-80001)***

Our audit report stated that state and local education agencies (SEAs and LEAs) need more guidance and/or technical assistance to maximize the impact of their programs under the Safe and Drug Free Schools and Communities Program. The report summarizes our review at the Department's program office, four states and 26 LEAs.

The Department's Safe and Drug Free Schools (SDFS) application process has improved. However, in three of the four states reviewed, the performance indicators developed by most LEAs were output-based, rather than outcome-based. The three states said that ED needed to provide more technical assistance on outcome-based performance indicators.

The Department has taken important steps to assist states in maximizing the impact of their SDFS programs, issuing "Principles of Effectiveness" and holding a national conference on the Principles in the summer of 1998. The Department is also planning additional technical assistance.

- ***Improving America's Schools conferences and presentations***

OIG staff participated in a number of conferences and presentations throughout the country on Improving America's Schools. The conferences (Denver, Colorado; Portland, Oregon; and Nashville, Tennessee) focused on many different issues, including Schoolwide programs, integration of funds to support educational reform, and reauthorization of the ESEA. Also at these conferences, OIG staff gave presentations concentrating on the integration of funds in Schoolwide programs and led roundtable discussions on flexibility within the ESEA.

♦ PROPOSED EDUCATION FLEXIBILITY PARTNERSHIP ACT OF 1999

In response to Congressional requests, OIG staff provided the Subcommittee on Early Childhood, Youth, and Families with comments on the proposed Education Flexibility Partnership Act of 1999 (Ed-Flex). Our comments included suggested statutory language making the provisions on monitoring more detailed to provide better guidance to the SEAs. We also recommended provisions designed to meet the expectations and requirements of the Government Performance and Results Act of 1993. The comments and statutory language provided to the Subcommittee reflected the findings and recommendations included in our paper, *An OIG Perspective on the Reauthorization of the Elementary and Secondary Education Act*, issued during this reporting period and described above.

STUDENT FINANCIAL ASSISTANCE

- **STUDY OF COST ISSUES: FEDERAL FAMILY EDUCATION LOAN PROGRAM AND FEDERAL DIRECT LOAN PROGRAM** *(CN S13-70001)*

OIG conducted a study of cost issues to assess their impact on the Federal Family Education Loan Program and Federal Direct Loan Program for fiscal years 1996 and 1997. Our study drew a distinction between "subsidy" costs—which are largely uncontrollable but constitute the majority of costs of the programs—and "administrative" costs—which are lesser but more controllable. We concluded that in any given year, either program's total costs (subsidy and administrative) might be greater given the impact of prevailing economic conditions on subsidy costs. Second, we concluded that inefficiencies likely affect the Department's administration of the two programs.

- **SYSTEMS CONTRACTING FOR OPERATION OF THE TITLE IV WIDE AREA NETWORK**

We performed a review of the Department's contract for operating the Title IV Wide Area Network (TIVWAN). The TIVWAN links thousands of users across the United States, its territories, and certain Department-designated foreign countries, to the Higher Education Act's Title IV student financial aid programs delivery systems. We issued a series of action memoranda to alert the Department to issues identified during our review. We reported concerns about informal task orders and modifications to the contract, noncompetitive awarding of additional tasks that appear outside the contract's original scope, outstanding TIVWAN remittances to the Department, and changes resulting in overcharges for key personnel.

FY 1998 FINANCIAL STATEMENT AUDIT

In *Semiannual Report No. 37* (page 3), we reported that the financial statement audit that is statutorily mandated to be completed no later than March 1, 1999 had been delayed. The Chief Financial Officer reported that the Department's accounting books and records would not be ready for audit until February 1999. We only recently received the Department's trial balance and financial statements, and now expect to complete the audit in October, rather than August as previously reported.

GOVERNMENT PERFORMANCE AND RESULTS ACT

The Government Performance and Results Act (GPRA or the Results Act) is the centerpiece of a statutory framework that Congress put in place to improve federal management and provide a greater focus on results. GPRA requires that federal agencies prepare a five-year strategic plan and annual performance plans beginning with fiscal year 1999. The Results Act also requires that federal agencies prepare performance reports. The first performance report on fiscal year 1999 is due in March 2000.

- **OIG ACTIVITIES TO ADVISE AND ASSIST THE DEPARTMENT**

OIG has participated in an advisory capacity to the Department in its implementation of the Results Act and will continue to do so. During this period, OIG staff reviewed and provided comments on the Department's data standards. A draft of those data quality standards was included in the Department's FY 2000 Annual Plan.

- **OIG RESULTS ACT WORK**

As previously reported, the Department's Strategic Plan includes an OIG recommendation that Department managers assert that the data used for their program's performance measurement are reliable or, if not reliable, detail plans for improving the data or finding alternative sources. In *An OIG Perspective on the Reauthorization of the Elementary and Secondary Education Act*, we recommended that a similar assertion be incorporated into the reauthorized ESEA to assure the validity and reliability of data from state and local levels. This data assertion recommendation from the "Perspective Paper" also was incorporated into the Oversight and Reporting Section of the proposed Education Flexibility Partnership Act of 1999 (Ed-Flex).

During this semiannual period, OIG visited four SEAs to identify controls that ensure the reliability of performance data submitted by SEAs to the Department for the Title I and Vocational Education programs. OIG will also identify limitations of, or weaknesses in, the performance data and the barriers or obstacles to improving the quality of that data. During the next semiannual period, OIG plans to perform work at additional SEAs and will begin work to assess the Department's controls over the data received from SEAs.

AUDIT RESOLUTION PRACTICES AND QUALITY INITIATIVES

- **COOPERATIVE AUDIT RESOLUTION AND OVERSIGHT INITIATIVE (CAROI)**

As reported in previous *Semiannual Reports*, we have been working with an intradepartmental team on a wide-ranging project known as the Cooperative Audit Resolution and Oversight Initiative (CAROI). CAROI is a collaborative method in which states and the Department of Education work together to help solve recurring problems identified in single audits and OIG audits. The goal of CAROI is to improve education programs and student performance at state and local levels through better use of audits, monitoring, and technical assistance.

This period, OIG staff participated in several CAROI initiatives:

- ***Cooperative efforts with states***

OIG continues to work with Departmental staff and the Commonwealth of Puerto Rico to complete the cooperative resolution of an audit of time distribution. In Washington State, OIG worked with the State Auditor's Office on a pilot project designed to provide an annual overall state-level audit. In Florida, OIG is

working with a group of other ED staff members and Florida representatives to resolve multiple audit findings affecting multiple Department program offices from fiscal years 1993 through 1997. In Illinois, OIG is working to resolve an audit finding concerning the adequacy of support for the allocation of administrative costs to federal programs.

- *Cooperative efforts with the Department*

OIG continues to work with the Department to help it transition to a comprehensive, cooperative audit resolution process. Toward this end, we are working with other Department offices to document the procedures to be used in a cooperative audit resolution process. The goal is to produce a model process for use by the Department, other federal agencies, and states.

- *CAROI web site*

OIG worked with other Departmental staff to produce a state-of-the-art web site. The web site provides information specific to CAROI as well as links to many other sites that provide useful information including guidance for Schoolwide programs and flexibility issues. The site is designed to respond to the needs of the users providing a "frequently asked questions" link and the CAROI Guide (when completed). The web site address is: **www.ed.gov/inits/CAROI**.

◆ QUALITY INITIATIVES

We continued to focus on improving audit quality by performing quality control reviews (QCRs) of the audit working papers prepared by independent public accountants (IPAs) who audit ED programs. We summarized the results of the student financial assistance QCRs performed in fiscal year 1998 that pertain to audits of fiscal years 1996 and 1997. We expect to issue a final report to the program office during the next reporting period. The results indicate that approximately 46 percent of the audit working papers were deemed substandard or significantly inadequate, despite some improvement over the prior year.

We will take appropriate action—which may include referrals to the State Boards of Accountancy and to the American Institute of Certified Public Accountants—against IPAs whose audits disclose recurring substandard performance or significant inadequacies. In addition, practitioners who are referred may be subject to suspension and debarment from federal programs and to civil action.

GOAL 2: PROGRAMS AND OPERATIONS INTEGRITY

OIG's work discloses significant fraud, waste and abuse; results in enforcement and corrective actions; and promotes deterrence.

♦ FAILURE TO COMPLY WITH THE TITLE IV REVENUE PERCENT RULE

The 85 Percent Rule required proprietary institutions of higher education participating in the Department's student financial assistance programs to obtain no more than 85 percent of their revenues from Title IV sources. The reauthorization of the Higher Education Act, in October 1998, changed the percentage from 85 to 90 percent. OIG work this period disclosed several instances in which schools did not adhere to the Title IV Percent Rule in effect for the period covered by the audits, reviews and investigations, resulting in the disbursement of federal SFA funds to which the schools were not entitled.

– ***"Treatment of Institutional Loans, Institutional Matching Funds and Perkins Loan Program in the 85 Percent Rule Calculation"*** *(SFA 99-07)*

We alerted the Office of Student Financial Assistance Programs that ED needs to emphasize to proprietary institutions the amounts that can be included when calculating their percentage of revenue from Title IV programs under the 85 (90) Percent Rule. We also said that the Department needs to provide guidance on the amounts that institutions should include in the 85 (90) Percent Rule calculation for the Perkins Loan Program.

As part of our assessment of the Department's implementation of the 85 Percent Rule, we conducted 20 audits of proprietary institutions to determine whether the institutions had met this institutional eligibility requirement. In 11 of the 20 audits, we found that institutions were including amounts in their calculation that did not represent revenue, i.e., amounts accounted for on a cash basis representing actual cash in-flows.

– ***"Academy Pacific Business and Travel College Was Not in Compliance With the 85 Percent Rule"*** *(ACN 09-80023)*

Our review found that Academy Pacific Business and Travel College, Los Angeles, California, received only 12.41 percent of its revenues from non-Title IV sources during the fiscal year ended December 31, 1995. As a result, the institution was ineligible to participate in the Title IV programs as of January 1, 1996. Academy Pacific also failed to meet the 85 Percent Rule in its fiscal years ended December 31, 1996 and 1997. As of May 31, 1998, Academy Pacific had received $1,935,364 in grants and disbursed $4,714,324 in loans after the institution became ineligible.

OIG investigations have also disclosed instances of noncompliance with the 85 Percent Rule, as in the following case, which resulted in an indictment this period.

– ***College officials and three corporations indicted for falsely reporting compliance with the 85 Percent Rule***

Jose Sosa Funes and Katherine Kuhn, the president and vice president, respectively, of Emory College of Puerto Rico, were arrested pursuant to an indictment issued by a federal grand jury in San Juan, Puerto Rico. Also indicted were three corporations: Emory College of Puerto Rico, Emco Investment Inc. and Tulip, Inc. Investigation developed evidence that Sosa and Kuhn requested $3,150,309 and fraudulently obtained $2,485,728 in Pell Grant and Federal Family Education Loan Program funds after falsely reporting to the Department that Emory College of Puerto Rico had complied with the 85 Percent Rule.

♦ **REAUTHORIZATION OF THE HIGHER EDUCATION ACT (HEA)**

– ***OIG proposals included in HEA reauthorization***

The OIG submitted 17 proposals to Congress for consideration in the 1998 reauthorization of the Higher Education Act, which passed in October. Four of our proposals were fully adopted by Congress and five other proposals were partially adopted.

We are nevertheless disappointed that several critical proposals to ensure integrity and provide for improvement in the SFA programs are not reflected in the amended HEA. We remain convinced that many of these recommendations—particularly our proposal to legislate performance standards for vocational schools—should be considered for future amendments to the HEA to enable program performance measurements for the Government Performance and Results Act.

♦ **MANIPULATION OF THE COHORT DEFAULT RATE**

By statute and regulation, the Department utilizes a formula for calculating the Federal Family Education Loan Program (FFELP) cohort default rate of participating schools. Prior to the Higher Education Amendments of 1998, schools having an annual cohort default rate exceeding 25 percent for three consecutive years were prohibited from continued participation in the FFELP. To date, the Department has removed the FFELP eligibility of some 1,065 schools based upon excessive cohort default rates. Under a provision of the Higher Education Amendments of 1998, schools with cohort default rates exceeding 25 percent for three consecutive years are now prohibited from participation in all Title IV programs.

The OIG has uncovered evidence that certain schools may have engaged in practices designed to fraudulently manipulate their cohort default rate calculations. Our investigations have revealed that schools endeavoring to manipulate cohort default rates have submitted fraudulent borrower deferments and forbearances and made token loan payments to loan servicing agencies. In this reporting period, the former owner of an Elizabeth, New Jersey beauty school pled guilty to fraudulently manipulating his school's cohort default rate. His sister, also an owner of the school, and three former employees also have been

charged in this case. Investigation disclosed that the school fraudulently received in excess of $846,000 in Title IV funds as a result of this activity.

During this reporting period, we presented materials and conducted a briefing on the fraudulent manipulation of cohort default rates to staff of the House Subcommittee on Human Resources, Committee on Government Reform and Oversight.

- **STUDENT FINANCIAL ASSISTANCE (SFA) MARKETING COMPANY/ CONSULTANT FRAUD**

Our investigative efforts in this area expanded in recent months with the opening of eight additional cases involving allegations of fraud on the part of individual consultants and/or SFA marketing companies. The consultants allegedly assist students and parents in using false income and other financial data to obtain student financial aid to which they would not be entitled. This assistance may include, but is not limited to, preparing false income-tax returns to be used for verification purposes. Typically, these individuals charge their clients a fee of between $275 and $350 or a percentage of the total financial aid award received.

During this reporting period, a Michigan consultant was sentenced and a New York consultant admitted guilt for such activity. Both investigations involved the preparation of fraudulent Free Applications for Federal Student Aid, as well as fraudulent tax returns and other supporting documentation used by the Department and colleges in awarding financial aid.

Based in part upon the audit and investigative work of the OIG, the Higher Education Amendments of 1998 passed during this reporting period included a provision to allow for the matching of applicant income data with the Internal Revenue Service (IRS). However, a match has not yet been implemented. Based upon our work, OIG believes that ***problems surrounding financial aid consultants and SFA marketing companies may be more extensive than has actually been documented.*** We strongly urge that the provision be implemented as soon as possible.

- **LENDER AND GUARANTY AGENCY FRAUD**

The OIG continues to pursue cases of due diligence fraud committed by financial institutions against the FFELP. Over the past several years, OIG has investigated several cases of due diligence fraud committed by loan servicing companies. These investigations to date have led to ordered restitution and fines in excess of $61 million.

During this reporting period, two corporate entities entered into settlement agreements with the United States in civil cases based on OIG investigations. Whitney National Bank, New Orleans, Louisiana, agreed to pay a civil settlement that alleged the falsification of due diligence requirements prior to the submission of loans to three guaranty agencies for default claims. In accordance with the settlement, the bank paid $6.1 million in claims and damages.

Additionally, investigative work performed by OIG during this period in the area of due diligence fraud also led to the filing of an April 8, 1999, civil complaint in U.S. District Court in Chicago, Illinois, against Corus Bankshares, Inc. and Corus Bank, Inc. for violations of the False Claims Act. The complaint alleged that the bank, as successor in interest to River Forest Bancorp, Inc., submitted thousands of false claims, resulting in improper reinsurance payouts totaling more than $11.8 million. These claims for defaulted student loans allegedly misrepresented the bank's loan servicing due diligence activity. Further details regarding this action will appear in our next *Semiannual Report*.

In another matter involving fraud by financial institutions against the FFELP, five former board members of the Education Assistance Corporation (EAC), a designated guaranty agency in South Dakota, agreed to pay $250,000 as part of a civil settlement which alleged that they had defrauded the Department by entering into agreements with two for-profit corporations, Tel Serv and Aberdeen Real Estate. The scheme involved submission of false claims for payment from the EAC reserve fund to the two corporations.

♦ POSTSECONDARY SCHOOL FRAUD

During the reporting period, OIG devoted substantial resources to investigations of postsecondary school owners, officials and employees. As outlined in Abstract 2, *Significant Prosecutive Actions Resulting from OIG Investigations*, 16 vocational school owners and/or employees and six employees of other postsecondary schools were the subjects of prosecutive activity in connection with the administration of the student financial aid programs.

P.L. 95-452 Reporting Requirements

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*We have no instances to report.

Abstract 1

SIGNIFICANT AUDITS AND AUDIT-RELATED ACTIVITIES

October 1, 1998 – March 31, 1999

— Information Technology —

FUNDING THE YEAR 2000 CONVERSION, A REPORT ON ED'S YEAR 2000 COST ESTIMATES

ACN 11-80011 December 18, 1998

Our report on the Department's (ED's) cost estimate for addressing Year 2000 problems included three observations. First, although ED implemented a process for developing Year 2000 project cost estimates, we could not determine that ED's estimate reasonably reflected the actual costs to be incurred for the Year 2000. Second, ED did not receive significant funding earmarked for the Year 2000 renovation and funded the costs with existing appropriations. Third, we were unable to evaluate the effect of the Year 2000 project conversion on other Department information operations, as ED has not implemented a capital planning and investment control process. We provided recommendations to improve the cost estimation process and to coordinate a funding strategy to ensure that future costs are sufficiently funded.

REVIEW OF YEAR 2000 RELATED RISK TO PROGRAMS ADMINISTERED UNDER TITLE IV OF THE HIGHER EDUCATION ACT

S11-80014 January 15, 1999

Our review assessed the risk of the Department's systems and hardware not being able to process student financial assistance (SFA) data in the Year 2000. Our assessment addressed the state of readiness of ED's 13 mission-critical systems involved in the delivery of SFA as reported by ED's Independent Verification and Validation (IV and V) contractors.

We found that, based on the progress made in recent months, the risk of ED's systems and hardware not being ready for Year 2000 had been significantly diminished. At the time of our review, 10 of the 13 mission-critical systems instrumental in the delivery of SFA had been reported by ED as renovated, validated and implemented. We concurred that all remaining systems should be implemented by March 31, 1999.

We noted that ED had not included end-to-end testing and contingency plans, although both were in process and on schedule to meet OMB required dates. These two areas of risk, along with external trading partners and planned system enhancements, will warrant continued monitoring.

AUDIT OF THE POSTSECONDARY EDUCATION PARTICIPANTS SYSTEM [PEPS] DEVELOPMENT

ACN 11-70002 February 12, 1999

The objective of our audit was to assess the Department's management of the PEPS system development process. Generally, we found that PEPS featured many quality project-development attributes, but encountered delays due to weaknesses in the Department's capital planning and investment control process, and suffered from inadequate attention to data integrity problems during its early years.

Despite the delays and the data concerns, system users generally expressed the opinion that the PEPS system will serve the Department well when it is fully implemented. We identified the following three areas where ED's processes could be improved.

1) ED needs to accelerate its implementation of the capital planning provisions of the Clinger-Cohen Act. This would, in our opinion, help ED to avoid the recurrence of many of the problems that led to delays with PEPS development, and would strengthen future ED information technology (IT) development projects.

2) ED should take steps to assure the quality and completeness of PEPS data. Although the Department has initiated several efforts to improve the quality of the PEPS data during the past several years, to date a thorough, independent data reliability assessment has not been performed. For the Department to obtain the full benefit from the PEPS system, it should take steps to assure the system's user community of the quality and reliability of the PEPS data.

3) Controls over IT contracting need to be strengthened to address system transition. The PEPS development contract with the original contractor did not include a provision for the transfer of critical system documentation and source code to the subsequent contractor. This oversight resulted in a significant delay in PEPS development during 1995 and 1996, and additional cost to the development effort. ED was eventually able to provide the subsequent contractor with the necessary documentation to resume project development, but lacks specific guidance to prevent recurrence of transition problems with future development efforts.

REVIEW OF THE DEPARTMENT'S REQUIREMENTS DEFINITION & TESTING PROCESSES FOR THE LOAN ORIGINATION AND LOAN CONSOLIDATION SYSTEMS

ACN 11-70010 March 30, 1999

The objectives of our audit were to determine whether the Department adequately defined its system requirements for the Loan Origination and Loan Consolidation Systems (LOS/LCS) contract, and whether the Department adequately tested requirements prior to system start-up. Our review identified the following weaknesses:

1) System requirements were not adequately defined.

2) System specifications and documentation provided to EDS were incomplete and outdated.

3) Test scenarios and test cases did not ensure that the systems met the required functionality.

4) Overall documentation supporting the system testing was poorly maintained.

5) System-generated management information reports were not reviewed or tested.

6) System interfaces were not adequately tested prior to system implementation.

The body of our report detailed findings specific to the LOS/LCS development and implementation. The recommendations presented, however, addressed general control weaknesses noted and provided recommendations ED can use to improve the Department's future system

development and implementation processes overall, to avoid the difficulties and delays encountered with LOS/LCS.

Review of the Illinois Student Assistance Commission's Year 2000 Readiness Plans

ACN 05-90019 March 24, 1999

Our review of the Illinois Student Assistance Commission's (ISAC) Year 2000 readiness plans indicated that the entity had sufficient controls in place to reasonably ensure it was making satisfactory progress in its Year 2000 efforts. We believed that ISAC's Year 2000 efforts were satisfactory, because the entity exhibited acceptable performance in all key phases of the Year 2000 project management process, with the following exceptions:

1) ISAC was not scheduled to complete its Year 2000 plans until June 1, 1999, which is after the March 1999 date recommended by the Department.

2) ISAC was still in the process of developing some aspects of its contingency planning.

In our opinion, these exceptions were not yet significant. Nonetheless, we recommended that the Chief Operating Officer, Office of Student Financial Assistance Programs, monitor ISAC's progress relative to these areas.

Review of the Florida Office of Student Financial Assistance Year 2000 Readiness Plans

ACN 04-80029 November 24, 1998

Our review of the Florida Office of Student Financial Assistance's (FOSFA) Year 2000 readiness indicated that the entity had a plan in place to address its Year 2000 efforts. FOSFA had contracted with EDS, the servicer of the Florida Student Loan System, to make necessary Year 2000 renovations to their loan management system. Although FOSFA had developed, through its contractor, plans to address the key phases of the Year 2000 readiness, they were three months late starting their Year 2000 process. At the time of our site visit, EDS had completed the awareness phase and was approximately 67 percent complete with the assessment phase. In addition, we did not believe that FOSFA's contingency plan related to potential Year 2000 failure was adequate. Finally, FOSFA was in the process of awarding a new servicer contract, which was scheduled to start at the same time their Year 2000 efforts were to be completed by EDS. As a result of these items, we categorized FOSFA's Year 2000 efforts as cautionary.

Review of the Year 2000 Readiness Plans at Financial Aid Management for Education, Inc. Fort Lauderdale, Florida

ACN 04-90010 March 31, 1999

The review of Financial Aid Management for Education's (FAME) Year 2000 readiness plans indicated that the entity had instituted controls to reasonably ensure it is making satisfactory progress in its Year 2000 efforts. Although FAME was making progress in its Year 2000 efforts, we categorized FAME's Year 2000 plans as cautionary because of concerns in three of the planning stages.

At the time of the site visit, FAME officials indicated that they were approximately two-thirds complete with their Year 2000 changes and modifications to their computer systems. The anticipated completion to their student financial aid programs was the end of February 1999, with full Year 2000 compliance the second quarter of 1999.

FAME has completed its assessment, awareness, and renovation stages as related to its student financial aid programs; however, we had several concerns with its planning process in the renovation, validation and implementation stages. These concerns were:

1) FAME had not performed a complete inventory of its clients' hardware to ascertain year 2000 compliance;

2) FAME had not performed a complete testing of its system in a Year 2000 environment; and

3) FAME had not finalized its Year 2000 contingency plans.

REVIEW OF CALIFORNIA STUDENT AID COMMISSION'S YEAR 2000 READINESS PLANS

ACN 09-80032 November 13, 1998

Our review of the California Student Aid Commission's (CSAC) Year 2000 readiness plan indicated that the entity had sufficient controls in place to reasonably ensure satisfactory progress in its Year 2000 efforts. We conducted our work at CSAC as part of a larger OIG project to evaluate Year 2000 readiness at a sample of guaranty agencies.

CSAC founded EDFUND, a non-profit corporation, in January 1997 as its auxiliary organization to assist CSAC in operating and administering the federal student loan program. We examined documentation supporting EDFUND's reported progress for each phase of the Year 2000 project. We learned that EDFUND had completed the awareness and assessment phases for its systems. While it had not established an overall organizational Year 2000 contingency plan, EDFUND had demonstrated a recognition of the need for contingency planning that goes beyond the traditional emergency planning. EDFUND asserted it would complete contingency planning in the first quarter of 1999.

REVIEW OF DETROIT PUBLIC SCHOOLS' YEAR 2000 READINESS PLANS

ACN 05-90021 February 26, 1999

Our review of the Detroit Public Schools' (DPS) Year 2000 readiness plans indicated that the entity appeared to have sufficient controls in place to reasonably ensure that it was making satisfactory progress in its Year 2000 efforts. We believed that DPS' Year 2000 efforts were satisfactory because the entity exhibited acceptable performance in all key phases of the Year 2000 project management process. However, DPS had not established an overall organizational contingency plan.

DPS recognized that it must have a contingency plan in the event of a Year 2000-induced system failure. DPS advised us that it planned to hire a vendor soon to complete a contingency plan that would include a disaster recovery plan and a business resumption plan. Without a contingency plan, DPS could experience severe adverse effects in the event of a system failure related to a Year 2000 problem.

— Elementary and Secondary Education —

AN OIG PERSPECTIVE ON THE REAUTHORIZATION OF THE ELEMENTARY AND SECONDARY EDUCATION ACT

S1480010 February 24, 1999

The Department and Congress have an opportunity to improve the effectiveness and efficiency of the Elementary and Secondary Education Act of 1965 (ESEA), as amended by the Improving America's Schools Act of 1994, and align the ESEA with the Government Performance and

Results Act of 1993 (Results Act). In the 1994 reauthorization, Congress legislated greater flexibility in the administration of ESEA programs in return for increased accountability for results. The Department and Congress should build on this effort and continue improvements in the ESEA programs.

To assist in this important task, we recommended the following:

1) The reauthorized ESEA should be written in plain language that is clear enough to permit implementation of the law at the state and local levels without the need for extensive technical assistance.

2) The reauthorized ESEA needs to require not only the compilation of data for use in determining student achievement and program effectiveness, but also should take into consideration the need to assure the validity and reliability of data provided for that purpose by the state and local entities.

3) To more effectively produce the data required by the Results Act, the Department should use an OIG-developed test to help determine whether ESEA data collections fulfill the need for valid and reliable data.

4) The Department should establish minimum standards for SEAs in monitoring the LEA administration of ESEA programs.

5) The Department should play a more active role in ensuring ESEA program integrity by developing an oversight system that: a) integrates program reviews, audits, technical assistance, grantee reporting and evaluation studies; b) emphasizes follow-up of corrective actions; c) takes into account results of state analyses of LEA single audit findings; and d) otherwise ensures compliance with program requirements.

The final section of this paper is a summary of major audit results and reviews regarding charter school accountability, the flow of Title I program dollars to the schools, the use of Title XIV flexibility provisions and other related matters.

SAFE AND DRUG FREE SCHOOLS: INCREASING ACCOUNTABILITY AND PRESERVING FLEXIBILITY

ACN 03-80001 December 21, 1998

Our audit found that state and local educational agencies need more guidance and/or technical assistance to maximize the impact of their programs under the Safe and Drug Free Schools and Communities Act. The report summarizes our review at the federal program office, four states and 26 local educational agencies (LEAs).

Our review found that the Department's Safe and Drug Free Schools (SDFS) application process had improved from the interim program year (1995/96) to the year under review (1996/97). These improvements resulted in stronger management controls during the application review process and additional technical assistance to states. As a result, states' applications approved by ED included outcome-based performance indicators for the SDFS program. In three of the four states reviewed, however, the performance indicators developed by most LEAs were output-based. The three states said that ED needed to provide more technical assistance on outcome-based performance indicators.

The Department has developed the "principles of effectiveness," which became effective July 1, 1998. These principles provide a framework to help recipients of SDFS state and local grant funds to design, implement and evaluate programs in order to use the funds as efficiently and effectively as possible. In June 1998, the Department held a national conference on the principles and is planning additional technical assistance.

AUDIT OF UNEMPLOYMENT AND WORKERS COMPENSATION CHARGES BY THE DETROIT PUBLIC SCHOOLS, DETROIT, MICHIGAN

ACN 05-90005 February 2, 1999

Our report found that the Detroit Public Schools (DPS) did not annually calculate the unemployment and workers compensation portion of its fringe benefit rate because it did not have a formal policy requiring the annual calculation. If DPS does not calculate a new rate annually, it could overcharge the federal programs for unemployment and workers compensation costs. We believe sound business practices dictate that reasonable costs should be estimated using historical experience and reasonable assumptions. When historical data show large fluctuations from year to year, a sound business practice would dictate annual calculations of the fringe benefit rates.

DPS last calculated new unemployment and workers compensation fringe benefit rates using 1994-1995 award year data. An analysis of the unemployment costs disclosed large fluctuating costs ranging from a 183 percent increase in 1995-96 and a 9.89 percent increase in 1996-97 to a 58 percent decrease in 1997-98. In addition, an analysis of the workers compensation costs for 1995-96, 1996-97 and 1997-98 disclosed that actual costs were 13 to 16 percent higher than the 1994-95 costs that were used to calculate the rate. As a result, DPS undercharged the federal programs for unemployment and workers compensation costs during the three-year period. During our on-site field work, DPS was recalculating its unemployment and workers compensation rates using 1997-98 costs. If it does not calculate new rates, DPS could overcharge the federal programs.

DPS agreed with the finding and acknowledged that the calculation of fringe benefits had not been performed consistently during the past four years. DPS indicated that it had developed both a procedure for annually calculating the fringe benefit rate and a policy describing the methodology used for the calculation.

STATE OF MISSOURI SUSTAINABILITY OF THE SCHOOL-TO-WORK OPPORTUNITIES PROGRAM

ACN 07-80004 November 30, 1998

The audit objective was to determine whether Missouri had institutionalized elements that are indicative of a sustainable School-to-Work (STW) system. Missouri had taken measures that would contribute to system sustainability, such as its Comprehensive Guidance Program and the Outstanding Schools Act of 1993, which supports educational reform and workforce development issues. However, we also found areas in which actions could be taken to increase the likelihood that Missouri's STW system will be sustained after federal funding ceases.

We recommended that the National School-To-Work Office work with Missouri STW officials to help them implement the recommendations to improve sustainability. Although the Missouri Department of Elementary and Secondary Education did not fully concur with the findings, they generally concurred with our recommendations.

STUDY OF COST ISSUES: FEDERAL FAMILY EDUCATION LOAN PROGRAM AND FEDERAL DIRECT LOAN PROGRAM

CN S13-70001 March 18, 1999

OIG conducted a study of cost issues to assess their impact on the Federal Family Education Loan Program and Federal Direct Loan Program (FDLP) for fiscal years 1996 and 1997. Our study drew a distinction between "subsidy" costs—which are largely uncontrollable but constitute the majority of the costs of the programs—and "administrative" costs—which are lesser but more controllable. We concluded that in any given year, either program's total costs (subsidy and administrative) might be greater given the impact of prevailing economic conditions on subsidy costs. Second, we concluded that inefficiencies likely affect the Department's administration of the two programs.

To approximate the effect of these inefficiencies, we compared our estimate of the Department's cost to manage the FDLP— $17 per loan— to the average cost which we estimated (based on U.S. Treasury research) that large private lenders would have incurred to manage the FDLP program— $13 per loan.

To improve its administration of the loan programs, we suggested that the Department:

1) institute an activity-based costing system;

2) track employees' time to the program and the activity they work on;

3) develop models to predict borrowers' behavior, loan volume projections, and cost effects of management decisions; and

4) consider and take appropriate actions to address possible reasons for cost efficiencies.

ACADEMY PACIFIC BUSINESS & TRAVEL COLLEGE ELIGIBILITY TO PARTICIPATE IN TITLE IV PROGRAMS

ACN 09-80023 December 21, 1998

The objective of our audit was to determine whether Academy Pacific Business & Travel College (Academy Pacific), Los Angeles, California, derived at least 15 percent of its revenues from non-Title IV sources and properly reported its 85 Percent Rule percentage in its financial statements and, if applicable, to ED. Our review identified the following weaknesses in its calculation of the 85 Percent Rule.

Academy Pacific received only 12.41 percent of its revenues from non-Title IV sources during the fiscal year ended December 31, 1995. As a result, the institution was ineligible to participate in the Title IV programs as of January 1, 1996. Academy Pacific also failed to meet the 85 Percent Rule in its fiscal years ended December 31, 1996 and 1997.

In the notes to its financial statements, Academy Pacific reported to ED that the institution met the 85 Percent Rule. However, we found that Academy Pacific improperly included amounts for institutional scholarships, institutional matching contributions and institutional loans when calculating its percentages. These amounts did not represent non-Title IV cash revenue received by the institution. We also concluded that the validity of the institutional scholarships was questionable.

We recommended that the Chief Operating Officer, Office of Student Financial Assistance Programs take emergency action to terminate participation of Academy Pacific in the Title IV programs. The Chief Operating Officer should also require that Academy Pacific return federal

grants received and ensure that the Department is made whole for federally guaranteed and federal direct loans disbursed since January 1, 1996. As of May 31, 1998, Academy Pacific had received $1,935,364 in grants and disbursed $4,714,324 in loans after the institution became ineligible. Academy Pacific did not agree with our findings and recommendations.

Review of the Effectiveness of Provisional Certification Administered by the U.S. Department of Education

ACN 07-70008 January 15, 1999

Our review of a judgmental sample of institutional files disclosed that considering the available information, the Institutional Participation and Oversight Service (IPOS) decision to provisionally certify the schools was appropriate. However, because the Department has not revoked the eligibility of any provisionally certified schools to participate in the student financial assistance programs, we were unable to determine the overall effectiveness of provisional certification as a tool to manage those at-risk schools that may fail to take corrective action or whose compliance with federal regulations deteriorated.

We believe that the Department could take other action to improve its use of provisional certification, and to ascertain whether provisional certification is an effective tool to manage certain at-risk schools. We recommended that the Department:

1) extend the period of provisional certification for new schools until it receives the financial and compliance audits covering the schools' first full award year; and

2) avail itself of the rules related to revoking provisional certification for schools when the opportunity presents itself.

The Department concurred with our recommendation that it should use the rules set out in the provisional Program Participation Agreement related to revoking provisional certification for schools when the opportunity presents itself. However, it did not concur with our recommendation to extend the period of provisional certification for new schools until it receives the financial and compliance audits covering the schools' first full award year.

Antonelli College's Administration of Student Financial Assistance Programs

ACN 05-80008 February 16, 1999

Our audit found that Antonelli College did not adequately administer the Title IV, Higher Education Act (HEA) student financial assistance (SFA) programs and account for SFA transactions because it had not established strong management controls and an adequate accounting system. As a result, SFA funds were at risk.

We recommended that the Office of Student Financial Assistance Programs:

1) place Antonelli on reimbursement, impose significant fines, and impose any other Title 34, Code of Federal Regulations [CFR], Part 668, Subpart G action it deems appropriate;

2) instruct Antonelli to return $6,653 of SFA funds to ED and disburse $442 of credit balances to students;

3) instruct Antonelli to establish adequate checks and balances in its management control system; and

4) instruct Antonelli to:

   a) establish and implement controls to ensure that all SFA transactions are accurately recorded;

b) reconcile its federal Pell Grant and federal Supplemental Educational Opportunity Grant program funds for the 1996-1997 award year; and

c) make refunds by writing checks to the federal account.

Antonelli disagreed that it did not adequately administer the Title IV HEA programs and account for SFA transactions.

Inspection of CTI's Federal Student Financial Aid Programs

N04-70011 December 30, 1998

Our primary inspection objective was to determine if Career Training Institute (CTI) administered its federal student financial aid (SFA) programs in accordance with laws, regulations and applicable program requirements. Our inspection revealed that CTI and its programs were eligible to participate. However, we determined that CTI did not always: 1) properly determine student eligibility, 2) appropriately disburse SFA funds, and 3) properly calculate and pay refunds for students who withdrew. We also determined that there were other weaknesses in the school's capability to administer the SFA programs. From the sample of student files reviewed, we identified $67,670 in liabilities owed either to the Department or to lenders and $306 owed to students for aid received during award years 1996 and 1997. During this period, the school received a total of $2,824,258 in Title IV funds. Based on the liabilities identified from each of our Determinations (findings), we estimate that the liabilities owed by CTI may be $513,568, or as much as $932,054 .

In response to Determinations 1 and 3, CTI advised us that they have instituted new operating procedures, hired additional financial aid staff and contracted with a new SFA servicer. We believe these steps will help improve CTI' s administration of the SFA programs. However, we made some additional recommendations, which include that CTI determine and refund any additional liabilities owed.

A Review of the Federal Perkins Loan Program at Clark Atlanta University, Atlanta, Georgia

ACN 04-80006 December 4, 1998

We performed a limited review of the Perkins Loan Program at Clark Atlanta University. The objective of our review was to determine whether Clark Atlanta was administering the Perkins Loan revolving fund in accordance with applicable federal laws and regulations. Our review found that:

1) improvements are needed in the overall management of the Perkins Loan fund by Clark Atlanta; and

2) student file maintenance and Perkins Loan award procedure should be improved.

Clark Atlanta University concurred with our findings and recommendations.

Abstract 2

SIGNIFICANT PROSECUTIVE ACTIONS RESULTING FROM OIG INVESTIGATIONS

October 1, 1998 – March 31, 1999

— School Owners, Officials and Employees —

JACOB ELBAUM, board of directors
KALMEN STERN, administrator
DAVID GOLDSTEIN, administrator
BENJAMIN BERGER, mentor
Toldos Yakov Yosef Seminary

Rockland County, New York and Brooklyn, New York

After an 11-week trial in White Plains, New York, a federal jury convicted Kalmen Stern, Jacob Elbaum, David Goldstein and Benjamin Berger of Brooklyn and New Square, New York on charges of conspiracy, wire fraud and mail fraud in connection with the theft of tens of millions of dollars of federal program funds, including millions of Pell Grant dollars. The four convicted men: 1) created entities through which federal and state funds were obtained, 2) submitted fraudulent documentation in order to establish falsely the eligibility of New Square residents and others to participate in federal and state educational programs, 3) used the funds obtained from these programs for impermissible purposes, and 4) concealed their fraud by using false names and nominee bank accounts.

Pell Grants were disbursed in the names of thousands of New Square residents and others in postsecondary educational programs. Most of the students were listed as being enrolled in an independent study program that did not require them to attend classes but instead permitted them to study independently under the guidance of mentors. Under this structure, the mentors supposedly met with the students periodically to measure their progress and administer examinations. Many of the students were actually ineligible to receive federal funds because they were not seeking a certificate or degree or because they were still enrolled in high school. Also, many did not meet with mentors, review study materials, take examinations or otherwise participate in a program of study. At trial, students testified that they enrolled because they were promised payments of several hundred dollars per year by recruiters. Some students testified that they had not been enrolled as claimed and that they were unaware that Pell funds had been disbursed on their behalf. Pell Grant records disclosed that many of the students enrolled in as many as eight different educational institutions, including Rockland Community College and Toldos Yakov Yosef Seminary (TYY) during the late 1980s and early 1990s. Some students obtained Pell Grants for ten years or more. During the period in question, TYY alone received $11 million in Pell Grants on behalf of its purported students. Each of the convicted defendants was allegedly a member of TYY's administration, faculty or staff.

Two additional men, including the leader of the Village of New Square, Chaim Berger, fled the country prior to being indicted in 1997. Chaim Berger was arrested in Israel within weeks of the conclusion of the trial in New York. At a bail hearing in Israel, Berger was remanded to house arrest secured by way of a $3.5 million bond. (*Semiannual Report No. 35*, page s 21 and 22)

JOSE SOSA FUNES and KATHERINE KUHN, president and vice president

Emory College of Puerto Rico, Emco Investment Inc. and Tulip, Inc.

San Juan, Puerto Rico

A San Juan, Puerto Rico, federal grand jury indicted Jose Sosa Funes and his wife, Katherine Kuhn, the president and vice president, respectively, of Emory College of Puerto Rico on charges of making false statements, wire fraud, mail fraud, student financial aid fraud, and money laundering. Also indicted were three corporations, Emory College of Puerto Rico, Emco Investment Inc and Tulip, Inc. Joint ED/OIG, FBI and Postal Inspection Service investigation revealed that from August 1996 through February 1998, Sosa and Kuhn requested $3,150,309 and fraudulently obtained $2,485,728 in federal student assistance funds after falsely reporting to the Department that Emory College of Puerto Rico had complied with the 85/15 Rule. Investigation determined that Emory College of Puerto Rico received in excess of 90% of its revenue from SFA programs. The indictment further alleged that when Emory College closed in December 1997, Sosa and Kuhn did not pay refunds due to students in excess of $130,000. Both Sosa and Kuhn were arrested on March 1, 1999 pursuant to the indictment and several temporary restraining orders for the assets of Sosa and Kuhn were served.

FRANK CEFARATTI, co-owner and president
CAROLE CEFARATTI-DIAZ, co-owner and director
GLORIA MALAVET, admissions director
MODESTA PEREZ, financial aid director

Franklin School of Cosmetology and Hair Design

Elizabeth, New Jersey

Frank Cefaratti, the former co-owner and president of Franklin School of Cosmetology and Hair Design, Elizabeth, New Jersey, pled guilty to various felony charges based on a three-year scheme which defrauded the Department of Education of more than $846,000 in student financial assistance funds. Cefaratti pled guilty in U.S. District Court, Harrisburg, Pennsylvania, to one count each of mail fraud, student financial aid fraud, money laundering and obstruction of justice. The scheme involved the mailing of hundreds of forged and fraudulent documents to loan servicing agencies in an effort to reduce Franklin's FFELP cohort default rate. By manipulating Franklin's default rate, Cefaratti was able to avoid termination of Franklin's participation in the Title IV student financial assistance programs. The obstruction-of-justice charge related to Cefaratti's removal and destruction of evidence seized during the execution of a federal search warrant at the Franklin offices.

Cefaratti's sister, Carole Cefaratti-Diaz, a former co-owner and director, has also been charged in an information filed in U.S. District Court, Harrisburg, Pennsylvania with mail fraud, student financial aid fraud, money laundering and bank fraud. Cefaratti-Diaz allegedly directed employees at Franklin to complete and submit fraudulent deferment and forbearance forms. The criminal charge also alleged that she obtained a FFELP loan in her own name even though she had never enrolled at Franklin.

Two former Franklin employees, Gloria Malavet and Modesta Perez, have also been charged in the scheme and have pled guilty. Malavet, Franklin's former director of admissions, and Perez, Franklin's former director of financial aid, have both been charged with one count of student financial assistance fraud.

A third employee at Franklin entered into the Pretrial Diversion Program and was ordered to serve one year of probation and complete 20 hours of community service for her role in the scheme. *(Semiannual Report No. 37,* page 25*)*

SUSAN K. JENSEN, owner and chief executive officer

Interstate Business Colleges

North Dakota and Arizona

In U.S. District Court, Fargo, North Dakota, Susan K. Jensen pled guilty to one count of student financial aid fraud for failing to make student financial aid refunds of $543,765. Jensen was charged in a 13-count indictment with conspiracy, false statements, money laundering, wire fraud, student financial aid fraud and aiding and abetting. The charges against Jensen related to fraudulent documents submitted to the Small Business Aministration in applications for disaster relief funds and for failing to pay refunds totaling $543,765 owed to 278 students. According to the indictment, Jensen, who owned and was the chief executive officer of the Interstate Business Colleges in North Dakota and Arizona, also made false statements to the Department after Interstate Business Colleges was placed on the system of reimbursement. On five occasions, Jensen and others signed certifications to the Department stating that all Title IV refunds had been made. As part of the guilty plea, Jensen agreed to make an undetermined amount of restitution for her willful failure to pay refunds and agreed to pay an additional $368,311 to, or for the benefit of, former students for whom credit balances were owed.

STEVEN R. NELSON AND FRANCES M. NELSON, owners

Midwest Career College (MCC)

Indianapolis, Indiana

Steven R. Nelson and his wife, Frances M. Nelson, who owned and operated Midwest Career College (MCC), Indianapolis, Indiana, were indicted by a grand jury in the Southern District of Indiana. The 26-count federal indictment charged that from approximately February 1994 to June 1996, the couple failed to refund or misappropriated approximately $140,000 of federal student financial aid funds. ED/OIG and FBI agents arrested the Nelsons shortly after the indictment was issued.

The Nelsons allegedly also participated in conspiracies relating to the sale of MCC and the management of the Academy of Hair Design, also located in Indianapolis, resulting in a loss to the government of approximately $65,000.

Rose King-Tarter, financial aid director and purchaser of MCC, and Tyrus Young, the Nelsons' accountant, previously pled guilty to related charges and were sentenced in the Southern District of Indiana. *(Semiannual Report No. 37,* page 26)

CHRISTINO BURGOS, former owner and president

Interamerican Business College

Humacao, Puerto Rico

Christino Burgos, the former owner and president of Interamerican Business College (Interamerican), was sentenced in U.S. District Court, San Juan, Puerto Rico to ten months incarceration in a halfway house and home confinement and was ordered to make restitution to the Department of $180,351. Upon completion of his confinement, Burgos will serve five years of supervised probation. As previously reported, Burgos admitted to making false certifications to the Department on ED/PMS 272 reports regarding Interamerican's "cash on hand." Additionally, Burgos admitted that he fraudulently drew down in excess of $180,000 in Pell Grants for students purportedly enrolled at a closed campus. (*Semiannual Report No. 37*, pages 25-26)

GERRIT BATES, former treasurer

Acme Institute of Technology

South Bend, Indiana

Gerrit Bates, the former treasurer of the board of trustees of Acme Institute of Technology, was sentenced in the U.S. District Court, South Bend, Indiana to one year and one day of incarceration; three years supervised probation, and was ordered to pay restitution of $164,893. Bates previously pled guilty to one count of aiding and abetting in the misapplication of student loan funds. ED/OIG investigation determined that Bates instructed other Acme employees not to make student loan refunds.

BEVERLY PURDIE, owner and president

Samverly Barber and Hairstyling College

Atlanta, Georgia

Beverly Purdie, the president and owner of Samverly Barber and Hairstyling College, was sentenced in U.S. District Court, Atlanta, Georgia, to five months home confinement and a probation period of five years. ED/OIG investigation determined that Purdie drew down Pell Grant funds on behalf of students who had withdrawn from school or who had failed to complete the minimum number of required hours. Purdie was also ordered to pay restitution of $117,729. (*Semiannual Report No. 37*, page 26)

GUYLA JANE BOORMAN, co-owner

AJ's Cosmetology School

Winter Park, Florida

Guyla Jane Boorman, a co-owner of AJ's Cosmetology School, was sentenced in U.S. District Court, Orlando, Florida to three years probation. Boorman had previously admitted to instructing an AJ employee to submit fraudulent documents to the Department in support of fraudulent Pell and Direct Loan disbursements. ED/OIG investigation revealed that the fraudulent activity resulted in $50,000 in improper second disbursements of Pell Grants and Direct Loans on behalf of ineligible students. (*Semiannual Report No. 37*, page 27)

LAURA SMITH, former financial aid director

ROOSEVELT LEE

American College for the Applied Arts

Los Angeles, California

Laura Smith, the former financial aid director at American College for the Applied Arts, entered a plea of guilty to one count of conspiracy in U.S. District Court, Los Angeles, California. In pleading guilty, Smith admitted to conspiring with Roosevelt Lee, an acquaintance, to prepare false PLUS loan applications using the names Jefferson Brown and Derrick Long. ED/OIG investigation determined that Brown and Long were not enrolled at American College for the Applied Arts. Smith also admitted that she and Lee had agreed to split the proceeds of the fraudulent PLUS loans. Smith was sentenced to three years probation and ordered to pay restitution of approximately $35,945. Prior to her sentencing, Smith paid $10,000 of the restitution to the Department. Lee, who has also pled guilty, was sentenced for his role in the scheme to one month of incarceration/home detention to be followed by a period of three years probation. (*Semiannual Report No. 37*, page 27)

ROBBIE REESE, receptionist

American Baptist College

Nashville, Tennessee

Robbie Reese, a former receptionist at American Baptist College, was charged with one count of making false statements in an information filed in U.S. District Court, Nashville, Tennessee. ED/OIG investigation disclosed that Reese certified nine student loan applications valued at $31,000 for a co-worker at American Baptist College. Reese was aware that the co-worker was not attending classes at American Baptist College during the period certified on the loan applications. Additionally, Reese was not authorized by the financial aid office to certify the applications. Reese, who pled guilty to the information, was sentenced to a two-year period of probation.

STATE UNIVERSITY OF WEST GEORGIA

Carrolton, Georgia

The State University of West Georgia entered into and has paid in full a $21,231 civil settlement with the Department and the Department of Justice as a result of the improper payment of Federal Work Study (FWS) funds to student athletes. ED/OIG investigation disclosed that, between 1994 and 1997, members of the State University of West Georgia baseball team claimed FWS hours worked and received FWS compensation for periods in which they were in class or participating in intercollegiate athletic events. The athletes were paid $10,615 in FWS funds.

CHARLES ROTH, school director

Flagler Career Institute

Jacksonville, Florida

In U.S. District Court, Jacksonville, Florida, Charles Roth, the former school director of Flagler Career Institute, Jacksonville, Florida was sentenced to two years probation and fined a $100 special assessment fee. Roth had earlier pled guilty to one count of making false declarations by submitting false documents in a civil proceeding regarding Flagler's loss of accreditation. In November 1997, Flagler's accreditation was terminated after it was discovered that the school was offering two courses that were not accredited. In the civil proceeding, Roth created and submitted to the court two fictitious checks that purportedly represented application fees for accreditation of the two programs. *(Semiannual Report No. 37,* page 27*)*

CHARLOTTE CLINE, financial aid administrator

American Weld Testing School

Pasadena, Texas

Charlotte Cline, a former financial aid administrator at American Weld Testing School, was sentenced in U.S. District Court, Houston, Texas, to three years probation and ordered to pay restitution of $1,004. A joint ED/OIG and FBI investigation revealed that Cline became aware that the General Education Development (GED) certificates in two American Weld Testing student folders were identical except for the students' first names. Cline knew that without the proper evidence of a high school diploma or GED certificate, these two students were ineligible to receive federal student financial aid. Cline concealed the false documents and did not expeditiously notify any authority of their falsity. Investigation is continuing. *(Semiannual Report No. 37,* page 25*)*

— Lenders, Servicers and Guaranty Agencies —

WHITNEY NATIONAL BANK

New Orleans, Louisiana

Whitney National Bank entered into a civil settlement agreement with the U.S. Department of Justice and has paid $6.1 million in claims and damages. Whitney National Bank made and serviced federally insured student loans from 1979 to 1992. Between 1987 and 1992, employees of Whitney National Bank caused the submission of claims to three guaranty agencies with misrepresentations about due diligence activities which were required to be performed, but which had in fact not been performed. Investigation revealed that these employees failed to make required telephone calls, falsified telephone logs and backdated alleged collection letters to borrowers.

JAMES G.A. BISHOP, executive director
MANLEY B FEINSTEIN, board member
HARVEY C. JEWETT IV, board member
A. NORGRIN SANDERSON, board member
V.G. STOIA, board member
Education Assistance Corporation

Aberdeen, South Dakota

James G.A. Bishop, former executive director and board member of Education Assistance Corporation (EAC), Manley B. Feinstein, A. Norgrin Sanderson, Harvey C. Jewett IV and V.G. Stoia, all former EAC board members, entered into a settlement agreement with the United States. EAC, a non-profit corporation located in Aberdeen, South Dakota, is the designated guaranty agency for federal student loans in the state of South Dakota. The settlement agreement required the individuals to pay $250,000 as a result of certain related-party transactions.

EAC board members entered into agreements with Tel Serv Communications and Aberdeen Real Estate Partnership. These two for-profit entities were owned and operated by the five board member,s with the exception of Jewett, who did not have an interest in Tel Serv Communications. According to the settlement agreement, between 1978 and 1998, the five referenced EAC board members violated certain federal statutes and regulations and common law by causing the submission of inappropriate claims for payments from the EAC FFELP reserve fund to Tel Serv and Aberdeen Real Estate Partnership.

— SFA Marketing/Financial Aid Consultants —

SHEROLYN DENISE LARKIN

Detroit, Michigan

Sherolyn Denise Larkin was sentenced in U.S. District Court, Detroit, Michigan to 40 months incarceration to be followed by a two-year period of probation. Larkin was also ordered to pay restitution in excess of $1.7 million. Joint ED/OIG and U.S. Secret Service investigation revealed that Larkin falsified applications for student financial assistance and supporting income tax returns on behalf of her clients to make them appear financially qualified to receive federal student aid funds. The fraudulent income tax returns were submitted to the postsecondary institutions attended by her clients in conjunction with their aid applications. (*Semiannual Report No 36*, page 25 and *Semiannual Report No. 37*, page 28)

MICHAEL MOLITOR

Molitor College Aid, Inc.

Massapequa, New York

Michael Molitor, a financial aid planner and consultant, pled guilty in U.S. District Court, Uniondale, New York, to one count of making false, fictitious and fraudulent claims to the Department of Education. ED/OIG investigation disclosed that Molitor submitted hundreds of fraudulent documents to the Department and to postsecondary institutions to make clients appear financially eligible for Title IV student financial assistance. Molitor's guilty plea was preceded by his payment of $125,000 in restitution to the Department. Molitor also pled guilty to a similar criminal charge in the New York State court system.

— Foreign Study FFEL Project —

LAMART GLENN, FREDERICK DALTON
HOWARD BANDY, A.K.A. KALID SMITH

Le Cordon Bleu Cooking School

London, England

Lamart Glenn, Frederick Dalton and Howard Bandy, A.K.A. Kalid Smith, were indicted by a federal grand jury in the Eastern District of California on charges of mail fraud and aiding and abetting. The indictment alleged that between February 1997 and July 1997, Glenn individually or with Dalton and Smith completed and certified fraudulent Federal Family Education Loan (FFELP) applications falsely claiming attendance at Le Cordon Bleu Cooking School, London, England. As a result of the alleged false certifications, Glenn, Dalton and Bandy obtained approximately $47,000 in FFELP funds. After the indictment, Dalton failed to appear in court to answer the charges. He was subsequently arrested on unrelated charges.

ROBERT ANTHONY DOYLEY
ROCHELLE ANDERSON DOYLEY

Kings College
University of London Institute of Psychiatry

London, England

Robert Anthony Doyley, a Child Protective Services caseworker, and his wife Rochelle Anderson Doyley pled guilty to one count of student financial aid fraud in U.S District Court, Houston, Texas. Mr. Doyley was sentenced to 18 months incarceration, three years of probation and 200 hours of community service. He was also ordered to pay restitution of $70,477. Mrs. Doyley was sentenced to two years probation and 200 hours of community service. She was ordered to pay restitution of $17,860. ED/OIG investigation revealed that Robert Doyley forged school officials' signatures on 10 FFELP applications falsely certifying that he was enrolled in medical school in London, England. The Doyleys deposited over $70,000 into their joint checking account. *(Semiannual Report No. 37,* page 30*)*

GAIL ROBERSON

American University of the Caribbean

Poughkeepsie, NY

Gail Roberson was sentenced in U.S. District Court, White Plains, New York to 18 months in prison, three years probation and restitution totaling $18,500. Roberson, who earlier pled guilty to one count of mail fraud, submitted four Federal Family Education Loan Program applications between September 1997 and February 1998 using her name and the names of relatives. On each of the applications, Roberson falsely claimed attendance in medical school at the American University of the Caribbean in St. Maarten. Roberson also forged school official signatures on the loan applications. Although Roberson applied for $69,000 in fraudulent FFELP funds, she only received $18,500. ED/OIG investigation intercepted and prevented the disbursement of the remainder of the fraudulent funds. After the criminal charges were initially filed against Roberson, she attempted to have the case dismissed by presenting the Federal District Court and the U.S. Attorney's Office with fraudulent medical records purporting to show that she was suffering from a brain tumor. *(Semiannual Report No. 37,* page 30*)*

JACQUES E. METELLUS

Universidad Federico Henriquez Y Carvajal

Baltimore, Maryland

Jacques Metellus pled guilty to an information in U.S. District Court, Rochester, New York, which charged him with one count of student financial assistance fraud. In pleading guilty, Metellus admitted to a scheme to defraud the FFELP through the submission of loan applications bearing false claims and forged certifications of enrollment at a medical school in the Dominican Republic. Metellus applied for $37,000 in fraudulent FFELP funds between June and December 1997. ED/OIG investigation prevented the disbursement of $8,500. *(Semiannual Report No. 37,* page 31)

— Other Investigative Cases —

HUMPHREY ALAMS
A.K.A. HUMPHREY ALABARAONYE

Seattle, Washington

Humphrey Alams, A.K.A. Humphrey Alabaraonye, a Nigerian citizen, was indicted on bank fraud, false statements and false claims of citizenship charges in U.S. District Court, Seattle, Washington. Alams, who had been a fugitive since 1983, was arrested and is currently being held without bond. In 1983, Alams was indicted by a federal grand jury in Kansas City, Missouri on student financial aid fraud. After he became a fugitive, he allegedly continued to defraud the student financial aid programs by claiming to be a U.S. citizen on student loan applications. After his 1983 indictment, Alams obtained almost $90,000 to attend five schools. The latest indictment related to three student loans that Alams obtained for attendance at City University in Bellevue, Washington. The indictment also included four charges pursuant to an $80,000 Small Business Administration guaranteed loan.

JOHN A. BAD WOUND, accounting manager
DANIEL R. BANUELOS, certified public accountant
Oglala Lakota College
Kyle, South Dakota

John A. Bad Wound, the former accounting manager at Oglala Lakota College (OLC) was sentenced in U.S. District Court, Rapid City, South Dakota, to 151 months of incarceration to be followed by a period of probation of three years. Bad Wound was ordered to pay restitution in excess of $2.6 million for his role in a conspiracy that resulted in the embezzlement of over $2 million from OLC, a school located on the Pine Ridge Indian Reservation. A trial jury found Bad Wound guilty of aiding and abetting, conspiracy, theft from a tribal organization, theft of federal funds, transportation of stolen securities, tax evasion and money laundering.

A co-conspirator, Daniel R. Banuelos, was sentenced to one year and one day of incarceration, to be followed by a probation period of three years. He was also ordered to pay restitution of $114,470 to OLC. Banuelos, a certified public accountant, had previously pled guilty to embezzlement from an Indian Tribal Organization.

Bad Wound and Banuelos were two of six individuals charged in the scheme in which OLC checks were written and deposited into the bank accounts of fictitious businesses and/or companies with which OLC did little if any business. The stolen funds were used to purchase real estate, stocks, automobiles, drugs, art work, trips to Las Vegas, liaisons with prostitutes and payment on Bad Wound's defaulted student loan. (*Semiannual Report No. 34*, page 22; *Semiannual Report No. 35*, pages 31 and 32; *Semiannual Report No. 36*, pages 31 and 32; and *Semiannual Report No. 37*, pages 36 and 37)

WILLIAM KENNETH WELLS III
Northern Illinois Default Project

William Kenneth Wells III was indicted by a federal grand jury in Chicago, Illinois on seven counts of mail fraud, wire fraud, student financial aid fraud and bank fraud. The indictment charged that between January of 1989 and August of 1995, Wells defrauded the Department, federally insured banks and guaranty agencies of $71,170 received for attendance at seven schools in four states. Wells obtained the funds by concealing a defaulted student loan. Prior to the indictment, ED/OIG agents arrested Wells in Malibu, California based upon a criminal complaint filed in U.S. District Court, Northern District of Illinois.

GLORY PERRIN
A.K.A. GLORY EDU
Santa Ana, California

Glory Perrin, a.k.a. Glory Edu, was indicted in U.S. District Court, Los Angeles, California and charged with two counts of student financial aid fraud and two counts of claiming false citizenship. Perrin, who was arrested by ED/OIG agents, allegedly claimed to be a U.S. citizen on applications for student financial aid while enrolled at California State Polytechnic University, Pomona, California as an undergraduate and graduate student. ED/OIG investigation revealed that Perrin obtained approximately $38,800 in federal grants and guaranteed student loans over a five-year period.

JAMES S. PANTERA

Milwaukee, Wisconsin

A federal indictment against James S. Pantera was issued by a federal grand jury in Milwaukee, Wisconsin. The three-count indictment charged that Pantera possessed a firearm while a fugitive, made false statements to secure a passport and obtained federal student financial assistance funds by using a false identity. Pantera, who pled guilty to two counts of the indictment, admitted to fraudulently obtaining a passport and SFA funds. ED/OIG investigation disclosed that Pantera obtained in excess of $68,000 in Federal Family Education Loan Program funds at the Medical School of Wisconsin from July 1997 through August 1998. Pantera used a false date of birth and a false Social Security number to receive the loan proceeds.

MICHAEL EASTON
A.K.A. MICHAEL BITGOOD

Houston, Texas

Michael Easton pled guilty in U.S. District Court, Houston, Texas to one count of student financial aid fraud and one count of bankruptcy fraud. A joint ED/OIG and FBI investigation revealed that Easton used a false Social Security number to obtain federal student financial aid in 1985 and subsequently defaulted on a guaranteed student loan. In 1988, Easton legally changed his name from Michael Joseph Bitgood to Michael Easton. He subsequently used his assigned Social Security number to apply for and receive federal financial aid from August 1991 through September 1997. On his applications, Easton falsely reported his income and failed to notify the Department and the University of Houston that he had previously obtained federal financial aid funds and had previously defaulted on a student loan. Because of his false statements, Easton fraudulently obtained in excess of $34,000 in federal student financial aid. *(Semiannual Report No. 37,* page 34*)*

THERESA BEARPAW

Topeka, Kansas

Theresa Bearpaw was sentenced in U.S. District Court, Topeka, Kansas, to three years probation and ordered to pay restitution in excess of $37,000. Bearpaw, who had previously pled guilty, admitted to applying for federal student financial assistance using a fictitious Social Security number and failing to disclose a previously defaulted student loan. Bearpaw fraudulently obtained the funds while attending Washburn University from 1992 to 1996. *(Semiannual Report No. 37,* page 34*)*

TONYA JORDAN

Mariliville, Indiana

In U.S. District Court,Hammond, Indiana, a civil judgment in the amount of $18,349 was entered against defendant Tonya Jordan. Jordan received federal Pell Grants by concealing her default status on prior student loans. Previously, a civil complaint was filed with the court seeking treble damages and fines for unjust enrichment in violation of Title 31 U.S.C. 3729 (False Claims Act).

RAFAEL RAFCA, former financial aid director
KARY SILVA, LETICIA VALDES AND EDGARDO MORAN
Politechnical Institute of Florida

Southern Florida

Kary Silva, a fugitive since October 1997, entered a plea of guilty to one count of conspiracy and one count of bank fraud in U.S. District Court, Miami, Florida. Silva was one of nine individuals

indicted as part of a PLUS loan fraud scheme that resulted in the disbursement of $268,000 in PLUS loans. Silva used fictitious parent and student names and Social Security numbers on PLUS loan applications. Additionally, she recruited friends to assist her in the scheme. Silva admitted being responsible for the disbursement of $148,000 in fraudulent PLUS loans.

The mastermind of the scheme, Rafael Rafca, was sentenced to 41 months incarceration to be followed by a five-year period of probation. Rafca was also ordered to pay restitution on the fraudulent loans totaling $268,000. Rafca, a former financial aid officer at Politechnical Institute of Florida, provided the school codes of at least 11 colleges and universities in southern Florida to his co-conspirators for submission on the fraudulent PLUS loan applications.

Leticia Valdes, who was convicted by a jury of conspiracy and bank fraud, was sentenced to 10 months incarceration to be followed by a three-year period of probation. She was also ordered to pay $9,193 in restitution. An additional coconspirator, Edgardo Moran, was indicted by a federal grand jury and subsequently arrested by ED/OIG agents. Moran, who has also pled guilty, was charged with conspiracy and bank fraud. Moran admitted obtaining $96,000 in fraudulent PLUS loan disbursements. (*Semiannual Report No. 36*, page 25 and *Semiannual Report No. 37*, page 36)

DANIEL LABIANCA

New York City Community School Board District 14

Brooklyn, New York

Daniel J. LaBianca, director of funded programs for the New York City Community School Board District 14, was arrested and pled guilty to one count of embezzlement in U.S. District Court, Brooklyn, New York. Investigation disclosed that LaBianca participated in a scheme to defraud the Department by preparing and submitting false Title I funding applications. (*Semiannual Report No. 37*, page 33)

LOYCE COLE, management and program analyst

U.S. Department of Education, Office of Postsecondary Education

Washington, DC

Loyce Cole was sentenced in U.S. District Court, Washington, DC. to two years probation and was ordered to pay restitution to the Department of Education in the amount of $13,050. ED/OIG investigation revealed that Loyce Cole, an employee of the Office of Postsecondary Education, fraudulently completed and submitted an Application and Promissory Note for Federal PLUS Loan using a false Social Security number and date of birth. This activity resulted in the receipt of an $8,000 PLUS loan on behalf of her daughter. In addition, Cole fraudulently completed and submitted a Student Aid Report and a renewal Free Application for Federal Student Aid on which she failed to disclose her income. Cole's daughter subsequently fraudulently received Pell Grant, Supplemental Educational Opportunity Grant and Perkins Loan funds totaling $9,400.

JACQUELINE WARREN, administrative assistant

U.S. Department of Education

Chicago, Illinois

Jacqueline Warren, administrative assistant in the Office of the Secretary's Regional Representative in Chicago, was sentenced to two months of community incarceration and eight months of in-home confinement. Warren, who had earlier pled guilty to wire fraud, was also ordered to serve three years supervised probation and make restitution to the Department totaling $6,791. She was also ordered to make restitution to creditors she defrauded in a bankruptcy fraud scheme and refrain from applying for new credit without the consent of the U.S. Probation Office.

ED/OIG investigation revealed that beginning on or about July 1994 and continuing to about July 1995, Warren unlawfully used the U.S. Government IMPAC Visa credit card to purchase $6,791 worth of goods and services for her personal use, knowing that such purchases and transactions were not authorized or permitted by ED, and that they would be billed to the Department for payment. Among the unauthorized items purchased by Warren for her personal use were, electronic audio and video equipment (VCR camcorder, 35mm camera, two 5" Sony Watchman televisions, a stereo system, etc.), women's and girls' clothing, cosmetics, leather goods, perfume, groceries and luggage. (*Semiannual Report No. 37,* page 35)

RICKY GRIFFIN

Los Angeles, California

Ricky Griffin, a co-conspirator of the Priscilla Ann Hamilton tax and loan fraud ring, was sentenced in U.S. District Court, Los Angeles, California to 10 months incarceration to be followed by a five-year period of probation. Griffin was also ordered to pay restitution of $4,000 to the Department and $11,000 to the Internal Revenue Service. Griffin was one of several people indicted in 1996 for his role in obtaining fraudulent PLUS loans using school codes from the University of Southern California, Grambling State University and the University of Houston. (*Semiannual Report No. 35,* page 25)

CASONDRA A. TSHIMANGA
JEAN CLAUDE TSHIMANGA KOLANDA

Fremont, California

Casondra A. Tshimanga and Jean Claude Tshimanga Kolanda each pled guilty to one count of conspiracy in U.S. District Court, Oakland, California. A joint OIG and FBI investigation revealed that the Tshimangas defrauded several credit card companies and a school in Hayward, California. Using these two schemes, the Tshimangas fraudulently obtained in excess of $285,000 in credit card and student financial aid proceeds.

DR. HELMY QURTOM AND SAWSAN KURTOM

Beltsville, Maryland

Dr. Helmy Qurtom and his wife, Sawsan Kurtom, were sentenced in U.S. District Court, District of Maryland, for their felony convictions for theft of government property. Dr. Qurtom, a practicing neonatologist with hospital privileges at three Washington area hospitals, was sentenced to serve five months incarceration and five months of home detention followed by three years of supervised release. In addition, Dr. Qurtom was ordered to perform 100 hours of community service and pay a $15,000 fine. Mrs. Kurtom was sentenced to serve three years of probation, with the first six months in home detention, and pay a $5,000 fine.

From 1993 until 1997, the defendants received approximately $71,000 in food stamps, plus medical and public assistance to which they were not entitled because of their income, by filing false applications with the Prince George's County (Maryland) Department of Social Services. Along with their children, the defendants had also filed nine false student financial aid applications for benefits from the Department and wrongfully received $47,766. The defendants have made full restitution to the Department.

RECOMMENDATIONS DESCRIBED IN PREVIOUS *SEMIANNUAL REPORTS* ON WHICH CORRECTIVE ACTION HAS NOT BEEN COMPLETED

Section 5(a)(3) of the Inspector General Act requires a listing of each report resolved before the commencement of the reporting period for which management has not completed corrective action. The reports listed below are OIG internal and nationwide audit reports and management improvement reports.

REPORT NUMBER	AUDITEE/TITLE	DATE RESOLVED	TOTAL MONETARY FINDINGS	SEMIANNUAL REPORT NO.	PAGE
OFFICE OF ELEMENTARY AND SECONDARY EDUCATION					
11-20202	CHANGES TO IMPACT AID PROGRAMS' SITE REVIEW PROCESS SHOULD IMPROVE EFFICIENCY AND ASSURE BETTER USE OF PROGRAM FUNDS	09/30/94	4,382,000	26	85
OFFICE OF SPECIAL EDUCATION AND REHABILITATIVE SERVICES					
03-50201	COORDINATION AND COLLABORATION WITHIN OSERS TO BETTER SERVE CUSTOMERS AND MANAGE PROGRAMS	09/30/97	*	34	18
11-50201	OFFICE OF SPECIAL EDUCATION AND REHABILITATIVE SERVICES SECRETARIAL REVIEW PROCESS IN NEED OF CHANGE	09/30/98	*	35	19
OFFICE OF POSTSECONDARY EDUCATION					
11-00010	THE OFFICE OF STUDENT FINANCIAL ASSISTANCE DID NOT ASSURE THAT ALL INSTITUTIONS SUBMITTED AUDIT REPORTS OR THAT IT RECOVERED ALL MISSPENT FUNDS	09/30/93	33,800,000	24	63
11-90040	THE INSTITUTIONAL ELIGIBILITY PROCESS DOES NOT PROVIDE ADEQUATE ASSURANCE THAT ONLY ELIGIBLE SCHOOLS PARTICIPATE IN THE TITLE IV PROGRAMS	09/30/93	482,000	22	6
92-05**	EDUCATION NEEDS TO STRENGTHEN STUDENT LOAN CURE PROCEDURES	09/30/93	154,000,000	24	12
92-10**	STRICTER STANDARDS NEEDED FOR THE GRANTING OF FORBEARANCES	09/30/93	*	25	3
92-13**	ED NEEDS TO CHANGE THE LEGISLATIVE DEFINITION OF LOANS IN REPAYMENT	01/31/94	*	25	5
05-20075	REPORT ON THE EFFECTIVENESS OF THE REGIONAL INSTITUTIONAL REVIEW BRANCHES' MONITORING OF INSTITUTIONS PARTICIPATING IN THE STUDENT FINANCIAL ASSISTANCE PROGRAMS FOR THE PERIOD OCTOBER 1, 1989 THROUGH SEPTEMBER 30, 1992	08/31/94	*	28	19
17-30302	FINANCIAL AUDIT: FEDERAL FAMILY EDUCATION LOAN PROGRAM'S FINANCIAL STATEMENTS FOR FISCAL YEARS 1993 AND 1992	10/31/94	*	29	16
11-30001	INCONSISTENT INSTITUTIONAL PELL GRANT REPORTING RESULTS IN SIGNIFICANT EXPENDITURE DISCREPANCIES	07/31/95	*	29	15
04-40100	HELPING TO ASSURE EQUALIZED EDUCATIONAL OPPORTUNITIES WITH HEA, TITLE III INSTITUTIONAL AID FUNDS - GLOBAL PERFORMANCE MEASURES NEEDED	08/31/95	*	31	11
17-30305	ANNUAL INTEREST GRANTS: IMPROVING THE PROCESS FOR PAYING THE REMAINING GRANTS	02/29/96	5,025,272	31	14
11-40001	FOLLOW-UP REVIEW ON SELECTED GATEKEEPING OPERATIONS	02/29/96	*	31	13
05-40005	ED NEEDS TO CONSIDER IMPLEMENTING CHANGES FOR MONITORING LENDERS AND SERVICERS	03/31/96	*	32	10
05-50008	EFFECTIVENESS AND EFFICIENCY OF DEBT COLLECTION SERVICE - AREAS RELATED TO INTERNAL OPERATIONS	04/30/96	*	32	12

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REPORT NUMBER	AUDITEE/TITLE	DATE RESOLVED	TOTAL MONETARY FINDINGS	SEMIANNUAL REPORT NO.	PAGE
04-38000	LESSONS LEARNED FROM RTC'S HANDLING OF FEDERAL FAMILY EDUCATION LOANS. STRATEGY NEEDED TO HANDLE STUDENT LOAN ADMINISTRATIVE ISSUES INVOLVING FAILED OR BANKRUPT INSTITUTIONS PARTICIPATING IN THE FEDERAL FAMILY EDUCATION LOAN PROGRAM	08/31/96	•	32	9
04-60001	PROCESS ENHANCEMENTS IN THE HEA, TITLE III, INSTITUTIONAL AID PROGRAM WOULD INCREASE PROGRAM EFFICIENCY, DESPITE LIMITED RESOURCES	08/31/96	•	32	9
06-30004	MANAGING FOR RESULTS: REVIEW OF PERFORMANCE-BASED SYSTEMS AT SELECTED ACCREDITING AGENCIES	08/31/96	•	31	7
07-48051	CLOSED SCHOOLS: $2.4 BILLION UNAUDITED	06/30/96	•	31	13
06-50010	THE ELECTRONIC DATA EXCHANGE: A SECURITY REVIEW IS NEEDED	12/31/96	•	33	12
03-60001	COMING TOGETHER TO FACE THE CHALLENGES OF AN UNCERTAIN FUTURE: A REVIEW OF THE MANGEMENT SYSTEMS AND STRUCTURE OF THE U.S. DEPARTMENT OF EDUCATION, OFFICE OF POSTSECONDARY EDUCATION, OFFICE OF STUDENT FINANCIAL ASSISTANCE PROGRAMS	03/31/97	•	33	29
09-38058	THE DEPARTMENT SHOULD CONTINUE ITS EFFORTS TO IMPROVE THE ACCURACY OF ITS STUDENT LOAN DATABASE	03/31/97	•	33	13
11-50001	ACCURACY OF STUDENT AID AWARDS CAN BE IMPROVED BY OBTAINING INCOME DATA FROM THE INTERNAL REVENUE SERVICE	06/30/97	109,000,000	34	08
06-50001	REVIEW OF ACCREDITING AGENCIES' MONITORING OF MEMBER INSTITUTIONS	3/31/98	•	34	09
	OFFICE OF THE CHIEF FINANCIAL OFFICER				
11-00333	GREATER EMPHASIS NEEDED TO DEOBLIGATE UNEXPENDED CONTRACT FUNDS AND CLOSE OUT CONTRACTS ON TIME	03/31/94	7,500,000	26	17
17-40302	FINANCIAL STATEMENT AUDIT: U.S. DEPARTMENT OF EDUCATION FEDERAL FAMILY EDUCATION LOAN PROGRAM FOR THE YEARS ENDED SEPTEMBER 30, 1994 AND 1993	08/31/95	•	31	12
17-48320	FINANCIAL STATEMENT AUDIT U.S. DEPARTMENT OF EDUCATION FEDERAL DIRECT LOAN PROGRAM FOR THE YEAR ENDED SEPTEMBER 30, 1994	09/30/95	•	30	20
17-40303	REPORT OF INDEPENDENT ACCOUNTANTS ON THE DEPARTMENT'S ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED SEPTEMBER 30, 1995	03/31/97	•	33	14

• Non-monetary findings only
•• Management improvement report

ED/OIG REPORTS ON EDUCATION DEPARTMENT PROGRAMS AND ACTIVITIES

(October 1, 1998 – March 31, 1999)

Section 5(a)(6) of the Inspector General Act requires a listing of each report completed by OIG during the reporting period. A total of 12 reports were completed by ED/OIG auditors. These reports are listed below. In addition we also issued 29 alternative products which include action memorandums and management reviews.

ACN	AUDITEE/REPORT TITLE	STATE	ISSUED	QUESTIONED COSTS (excluding unsupported)	UNSUPPORTED COSTS	BETTER USE OF FUNDS
OFFICE OF POSTSECONDARY EDUCATION						
A04-80006	REVIEW OF THE FEDERAL PERKINS LOAN PROGRAM AT CLARK ATLANTA UNIVERSITY, ATLANTA, GEORGIA	GA	DEC-98	*		
A04-80029**	REVIEW OF THE FLORIDA OFFICE OF STUDENT FINANCIAL ASSISTANCE YEAR 2000 READINESS PLANS	FL	NOV-98	*		
A04-80031**	REVIEW OF THE TENNESSEE STUDENT ASSISTANCE CORPORATION'S YEAR 2000 READINESS PLANS	TN	DEC-98	*		
A04-90010**	REVIEW OF THE YEAR 2000 READINESS PLANS AT FINANCIAL AID MANAGEMENT FOR EDUCATION, INC., FT. LAUDERDALE, FLORIDA	DC	MAR-99	*		
N04-70011	INSPECTION OF CTI'S FEDERAL STUDENT FINANCIAL AID PROGRAMS	DC	DEC-98	*		
A05-80008	ANTONELLI COLLEGE'S ADMINISTRATION OF STUDENT FINANCIAL ASSISTANCE PROGRAMS	OH	FEB-99	6,653		
A05-90013	AUDIT OF ELIGIBILITY UNDER THE 85 PERCENT RULE AT TAYLOR BUSINESS INSTITUTE, CHICAGO, ILLINOIS	IL	FEB-99	*		
A05-90019**	REVIEW OF THE ILLINOIS STUDENT ASSISTANCE COMMISSION'S YEAR 2000 READINESS PLAN	IL	MAR-99	*		
A07-70008	REVIEW OF THE EFFECTIVENESS OF PROVISIONAL CERTIFICATION ADMINISTERED BY THE U.S. DEPARTMENT OF EDUCATION	DC	JAN-99	*		
A09-80023	ACADEMY PACIFIC BUSINESS & TRAVEL COLLEGE ELIGIBILITY TO PARTICIPATE IN TITLE IV PROGRAMS	CA	DEC-98	6,649,689		
A09-80028**	SANTA BARBARA BUSINESS COLLEGE'S INSTITUTIONAL ELIGIBILITY UNDER THE 85 PERCENT RULE REQUIREMENT	CA	DEC-98	*		
A09-80031**	SAN DIEGO GOLF ACADEMY'S INSTITUTIONAL ELIGIBILITY UNDER THE 85 PERCENT RULE REQUIREMENT	CA	NOV-98	*		
A09-80032**	REVIEW OF CALIFORNIA STUDENT AID COMMISSION'S YEAR 2000 READINESS PLANS	CA	NOV-98			
A09-90003**	INSTITUTIONAL ELIGIBILITY UNDER THE 85 PERCENT RULE FOR INSTITUTION'S OWNED BY HIGH-TECH INSTITUTE	CA	JAN-99	*		
A11-70002	AUDIT OF THE POSTSECONDARY EDUCATION PARTICIPANTS SYSTEM DEVELOPMENT	DC	FEB-99	*		
A11-70010	REVIEW OF THE DEPARTMENT'S SYSTEM REQUIREMENTS DEFINITION & TESTING PROCESS FOR THE LOAN ORIGINATION AND LOAN CONSOLIDATION SYSTEMS	DC	MAR-99	*		

ACN	AUDITEE/REPORT TITLE	STATE	ISSUED	QUESTIONED COSTS (excluding unsupported)	UNSUPPORTED COSTS	BETTER USE OF FUNDS
OFFICE OF POSTSECONDARY EDUCATION (continued)						
S13-70001	STUDY OF COST ISSUES: FEDERAL FAMILY EDUCATION LOAN PROGRAM/ FEDERAL DIRECT LOAN PROGRAM	DC	MAR-99	•		
SFA 99-01	INFORMAL CONTRACT TASK ORDERS/MODIFICATIONS	DC	OCT-98	•		
SFA 99-02	OUTSTANDING TITLE IV WIDE AREA NETWORK REMITTANCES	DC	NOV-98	•		
SFA 99-03	DREXEL UNIVERSITY REPORTED INCORRECT STUDENT STATUS DATA TO THE NATIONAL STUDENT LOAN CLEARINGHOUSE (NSLC)	PA	NOV-98	•		
SFA 99-04	OFFICE OF INSPECTOR GENERAL ALERT CONCERNING UNMADE REFUNDS AND LATE REFUNDS BY CITY COLLEGES OF CHICAGO	IL	NOV-98	•		
SFA 99-05	TITLE IV WIDE AREA NETWORK CONTRACT – INAPPROPRIATE CHARGES FOR KEY PERSONNEL TO NEW TASKS AND OTHER NCS CONTRACTS	DC	DEC-98	•		
SFA 99-06	PROFESSIONAL JUDGEMENT ACTIONS NOT ALWAYS REPORTED BY SCHOOLS	DC	JAN-99	•		
SFA 99-07	TREATMENT OF INSTITUTIONAL SCHOLARSHIPS, INSTITUTIONAL LOANS, INSTITUTIONAL MATCHING FUNDS AND PERKINS LOAN PROGRAM IN THE 85 PERCENT RULE CALCULATION	DC	JAN-99	•		
SFA 99-08	FINANCIAL STATEMENTS OF COMPUTER DYNAMICS INSTITUTE, INC. (CDI) IN VIRGINIA BEACH, VIRGINIA MAY NOT MEET THE REGULATORY REQUIREMENTS FOR ACCEPTANCE	DC	FEB-99	•		
SFA 99-09	DEPARTMENT OFFICIALS SHOULD AVOID THE APPEARANCE OF LIMITING FULL AND OPEN COMPETITION	DC	FEB-99	•		
SFA 99-10	CONCERNS REGARDING THE MONITORING OF THE GUARANTY AGENCY QUALITY CONTROL PILOT PROGRAM AT THE ILLINOIS STUDENT ASSISTANCE COMMISSION	DC	MAR-99	•		
S&L 99-02	NUMBER OF STUDENTS SERVED BY UPWARD BOUND AT CREIGHTON UNIVERSITY	NE	MAR-99	•		
SYS 99-03	Y2K READINESS OF SFA SERVICERS	DC	MAR-99	•		
OFFICE OF ELEMENTARY AND SECONDARY EDUCATION						
A03-80001	SAFE AND DRUG-FREE SCHOOLS: INCREASING ACCOUNTABILITY AND PRESERVING FLEXIBILITY	DC	DEC-98	•		
A05-90005	AUDIT OF UNEMPLOYMENT AND WORKERS COMPENSATION CHARGES BY THE DETROIT PUBLIC SCHOOLS, DETROIT, MICHIGAN	MI	FEB-99	•		
A05-90021**	REVIEW OF DETROIT PUBLIC SCHOOLS' YEAR 2000 READINESS PLANS	MI	FEB-99	•		
A07-80004	STATE OF MISSOURI SUSTAINABILITY OF THE SCHOOL-TO-WORK OPPORTUNITIES PROGRAM	MO	NOV-98	•		
S14-80010	AN OIG PERSPECTIVE ON THE REAUTHORIZATION OF THE ELEMENTARY AND SECONDARY ACT	DC	FEB-99	•		
S&L 99-01	ADMINISTRATION OF PUBLIC CHARTER SCHOOLS PROGRAM GRANT BY THE ARIZONA DEPARTMENT OF EDUCATION	AZ	OCT-98	•		
OFFICE OF CHIEF FINANCIAL OFFICER						
A07-80017	AUDIT OF PUBLIC INQUIRY CONTRACT, NATIONAL COMPUTER SYSTEMS, IOWA CITY, IA	IA	NOV-98	•		

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ACN	AUDITEE/REPORT TITLE	STATE	ISSUED	QUESTIONED COSTS (excluding unsupported)	UNSUPPORTED COSTS	BETTER USE OF FUNDS
OFFICE OF CHIEF FINANCIAL OFFICER (continued)						
A11-80011	*FUNDING THE YEAR 2000 CONVERSION A REPORT ON ED'S Y2K COST ESTIMATES*	*DC*	*DEC-98*	•		
S11-80014	*REVIEW OF YEAR 2000-RELATED RISK TO PROGRAMS ADMINISTERED UNDER TITLE IV OF THE HIGHER EDUCATION ACT*	*DC*	*JAN-99*	•		
OFFICE OF CHIEF FINANCIAL OFFICER (continued)						
SYS 99-01	*CONTINUED CONCERN ABOUT RECONCILIATION OF PAYEE RECORDS TO GAPS*	*DC*	*DEC-98*			
SYS 99-02	*TESTING OF MISSION IMPORTANT AND MISSION SUPPORTIVE SYSTEMS FOR YEAR 2000 COMPLIANCE*	*DC*	*JAN-99*	•		
FIN 99-01	*SURVEY REVIEW OF THE GRANT ADMINISTRATION AND PAYMENT SYSTEM (GAPS) RECONCILIATION PROCESS*	*DC*	*JAN-99*	•		

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• Non-monetary findings only
•• Information Report
A - Audit
S - Special Project
N - Inspection Reports
SFA - Student Financial Assistance Action Memo
S&L - State and Local Action Memo
SYS - Systems Action Memo
FIN - Financial Action Memo

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INSPECTOR GENERAL ISSUED REPORTS WITH QUESTIONED COSTS[1]

		NUMBER	QUESTIONED	UNSUPPORTED[2]
A.	For which no management decision has been made by the commencement of the reporting period (as adjusted)	28	$ 107,426,745	$ 17,494,325
B.	Which were issued during the reporting period	2	6,656,342	0
	Subtotals (A + B)	30	$ 114,083,087	$ 17,494,325
C.	For which a management decision was made during the reporting period	4	$ 4,945,416	$ 36,138
	(i) Dollar value of disallowed costs		2,635,847	36,138
	(ii) Dollar value of costs not disallowed		2,309,569	0
D.	For which no management decision has been made by the end of the reporting period	26	$ 109,137,671	$ 17,458,187
E.	For which no management decision was made within six months of issuance	17	$ 71,338,611	$ 13,692,889

[1] *None of the audits reported in this table were performed by the Defense Contract Audit Agency.*

[2] *Included in questioned costs.*

INSPECTOR GENERAL ISSUED REPORTS WITH RECOMMENDATIONS FOR BETTER USE OF FUNDS[1]

	NUMBER	DOLLAR VALUE
A. For which no management decision has been made by the commencement of the reporting period (as adjusted)	4	$ 18,191,552
B. Which were issued during the reporting period	0	0
Subtotals (A + B)	4	$ 18,191,552
C. For which a management decision was made during the reporting period	1	991,552
(i) Dollar value of recommendations that were agreed to by management	0	0
(ii) Dollar value of recommendations that were not agreed to by management	1	991,552
D. For which no management decision has been made by the end of the reporting period	3	$ 17,200,000
E. For which no management decision was made within six months of issuance	3	$ 17,200,000

[1] *None of the audits reported in this table were performed by the Defense Contract Audit Agency.*

UNRESOLVED REPORTS ISSUED PRIOR TO OCTOBER 1, 1998

Section 5(a)(10) of the Inspector General Act requires a listing of each report issued before the commencement of the reporting period for which no management decision has been made by the end of the reporting period.

REPORT NUMBER	AUDITEE/TITLE	ST	DATE ISSUED	TOTAL MONETARY FINDINGS	REASONS OVERDUE	PROJECTED MANAGEMENT DECISION	SEMIANNUAL REPORT NO.	PAGE NO.
	OFFICE OF ELEMENTARY AND SECONDARY EDUCATION							
02-56113	VIRGIN ISLANDS DEPARTMENT OF EDUCATION	VI	02/17/95	10,375,000	05	***	30	17
02-50200	THE PUERTO RICO DEPARTMENT OF EDUCATION MUST INSTITUTE A TIME DISTRIBUTION SYSTEM	PR	11/14/97	*	05	***	36	13
03-70001	AUDIT OF THE DISTRICT OF COLUMBIA PUBLIC SCHOOLS' ADMINISTRATION OF THE SAFE SCHOOLS GRANT	DC	01/23/98	210,651	05	***	36	15
06-60010	REVIEW OF CHARGES FOR UNEMPLOYMENT COMPENSATION INSURANCE NEW ORLEANS PUBLIC SCHOOLS	LA	01/28/98	2,265,212	01	***	36	18
	OFFICE OF SPECIAL EDUCATION AND REHABILIATIVE SERVICES							
04-53670	FLORIDA STATEWIDE	FL	10/04/95	2,855,402	05	***		
	OFFICE OF POSTSECONDARY EDUCATION							
09-10007	WESTERN TRUCK SCHOOL	CA	09/10/92	8,834,503	01	09/30/99	25	78
06-60004	FINANCIAL AID ADMINISTRATORS' USE OF PROFESSIONAL JUDGEMENT	DC	07/31/97	*	01	***	35	13
06-60006	ELIMINATING ADVANCE FUNDING WOULD ENHANCE THE INTEGRITY OF THE FEDERAL PELL GRANT PROGRAMS	DC	08/28/97	*	01	***	35	13
03-60009	ADMINISTRATION OF THE WILLIAM D. FORD FEDERAL DIRECT LOAN PROGRAM BY SCHOOLS	DC	10/15/97	*	01	***	36	12
05-70004	STRATEGIC PLANNING AND PERFORMANCE MEASUREMENT FOR GUARANTOR AND LENDER OVERSIGHT SERVICE ACTIVITIES CAN HELP FOSTER ACHIEVEMENT OF AN EFFICIENT AND EFFECTIVE FEDERAL FAMILY EDUCATION LOAN PROGRAM	DC	11/12/97	*	01	***	36	16
06-70005	PROFESSIONAL JUDGEMENT AT YALE UNIVERSITY	CT	03/13/98	5,469	01	09/30/99	36	18
09-70003	REVIEW OF R.GONZALEZ MANAGEMENT, INC.'S PROCESSING OF STUDENT FINANICAL ASSISTANCE TRANSACTIONS AND REPORTS FOR VOCATIONAL SCHOOLS	CA	04/21/98	*	01	09/30/99	37	19
07-70002	INCOME CONTINGENT REPAYMENT: COST ATTRIBUTION AND BORROWER STUDIES COULD ASSIST TO MEET THE OBJECTIVES OF FEDERAL FINANCIAL REPORTING AND PROGRAM MANAGEMENT	DC	06/01/98	*	***		37	19

REPORT NUMBER	AUDITEE/TITLE	ST	DATE ISSUED	MONETARY FINDINGS	REASONS OVERDUE	PROJECTED MANAGEMENT DECISION	REPORT NO.	PAGE NO.
	OFFICE OF POSTSECONDARY EDUCATION (continued)							
06-70004	APPLICANTS WITH DEFAULTED STUDENT LOANS CONTINUE TO RECEIVE FINANCIAL AID	DC	06/23/98	*	01	***	37	18
06-70009	PROFESSIONAL JUDGEMENT AT THE UNIVERSITY OF COLORADO	CO	07/17/98	15,082	01	09/30/99	37	17
05-80011	INSTITUTIONAL PARTICIPATION AND OVERSIGHT SERVICE HAS OPPORTUNITIES TO IMPROVE THE RECERTIFICATION PROCESS	DC	08/24/98	*	01	***	37	16
09-70015	ASSOCIATED TECHNICAL COLLEGE ELIGIBILITY OF INSTITUTIONS TO PARTICIPATE IN TITLE IV PROGRAMS AND OTHER ISSUES	CA	09/09/98	8,600,000	01	09/30/99	37	16
05-80007	THE DEPARTMENT OF EDUCATION HAS AN OPPORTUNITY TO IMPROVE ITS MANAGEMENT OF THE DEFAULT AVERSION PROGRAM	WI	09/23/98	*	***		37	18
05-70015	AUDIT OF THE GUARANTOR AND LENDER OVERSIGHT SERVICES' OVERSIGHT OF LENDERS PARTICIPATING IN THE FEDERAL FAMILY EDUCATION LOAN PROGRAM	DC	09/24/98	*	***		37	16
04-70016	REVIEW OF THE DEPARTMENT'S OVERSIGHT OF SCHOOLS PARTICIPATING IN THE WILLIAM D. FORD FEDERAL DIRECT LOAN PROGRAM	DC	09/25/98	*	***		37	15
05-40007	REPORT ON THE TRANSITIONAL GUARANTY AGENCY'S ROLE IN GUARANTY AGENCY TRANSITION STRATEGY	MN	06/02/95	*	***		31	07
05-80005	CENTRAL STATE UNIVERSITY SUPPORT SERVICES PROGRAM	OH	03/16/98	36,366	***		36	17
07-80005	REVIEW OF THE TITLE III, STRENGTHENING INSTITUTIONS PROGRAM AUDIT AT DONNELLY COLLEGE, KANSAS CITY, KANSAS	KS	07/10/98	*	***		37	18
07-23545	MISSOURI STATEWIDE	MO	04/01/93	1,048,768	01	***	**	
09-10005	CALIFORNIA STUDENT AID COMMISSION, SACRAMENTO, CALIFORNIA THE COMMISSION'S LOAN ON REPAYMENT WAS OVERSTATED BY $1.5 BILLION	CA	09/10/93	41,100,000	01	***	27	17
09-33114	STATE OF CALIFORNIA	CA	12/24/93	4,191,032	01	***	28	18
07-33123	MISSOURI STATEWIDE	MO	03/07/94	187,530	01	***	**	
05-30010	AUDIT OF THE FEDERAL EDUCATION LOAN PROGRAM ADMINISTERED BY NORTHSTAR GURANTEE, INC., ST. PAUL, MINNESOTA	MN	08/16/94	619,287	01	***	29	31
04-60147	REVIEW OF SELECTED ASPECTS OF THE KENTUCKY HIGHER EDUCATION ASSISTANCE AUTHORITY'S ADMINISTRATION OF THE FEDERAL FAMILY EDUCATION LOAN PROGRAM	KY	02/18/97	1,263,251	02	06/30/99	34	9
06-70001	NSLDS CAN BE ENHANCED IF LOAN PRINCIPAL AND INTEREST BALANCES AND STATUSES ARE UPDATED WITH LENDER DATA	DC	09/30/98	*	***		37	17
	OFFICE OF VOCATIONAL AND ADULT EDUCATION							
04-43134	FLORIDA STATEWIDE	FL	12/05/94	615,996	05	***		
07-70004	STATE OF NEW MEXICO: SUSTAINABILITY OF THE SCHOOL-TO-WORK OPPORTUNITIES PROGRAM	NM	05/27/98	*	01	***	37	21

REPORT NUMBER	AUDITEE/TITLE	ST	DATE ISSUED	MONETARY FINDINGS	REASONS OVERDUE	PROJECTED MANAGEMENT DECISION	REPORT NO.	PAGE NO.
	OFFICE OF EDUCATIONAL RESEARCH AND IMPROVEMENT							
03-60006	*REVIEW OF THE COOPERATIVE AGREEMENT FOR THE NATIONAL CENTER FOR ADULT LITERACY AWARDED TO THE UNIVERSITY OF PENNSYLVANIA FOR THE PERIOD NOVEMBER 1, 1992 THROUGH MARCH 31, 1996*	*PA*	*01/28/97*	*	***		*34*	*19*
09-60009	*WESTED'S ADMINISTRATION OF THE REGIONAL EDUCATIONAL LABORATORY CONTRACTS*	*CA*	*03/31/98*	*3,031,000*	*01*	*04/30/99*	*36*	*19*
	OFFICE OF CHIEF FINANCIAL OFFICER							
05-70017	*REVIEW OF INDIRECT COSTS CLAIMED OHIO - REHABILITATION SERVICES COMMISSION FISCAL YEARS 1993 AND 1994*	*OH*	*11/21/97*	*538,210*	*05*	***	*36*	*16*
17-60002	*AUDIT OF DEPARTMENT'S FISCAL YEAR 1996 AND 1995 ANNUAL FINANCIAL STATEMENTS*	*DC*	*07/31/97*	*	***		*35*	*19*
11-70007	*THE STATUS OF EDUCATION'S IMPLEMENTATION OF THE CLINGER-COHEN ACT*	*DC*	*03/31/98*	*	*01*		*36*	*19*
11-70011	*THE STATUS OF THE U.S. DEPARTMENT OF EDUCATION'S READINESS FOR YEAR 2000*	*DC*	*03/31/98*	*	***		*36*	*20*
17-70002	*U.S. DEPARTMENT OF EDUCATION'S FISCAL YEAR 1997 FINANCIAL STATEMENTS AND ACCOMPANYING NOTES*	*DC*	*05/29/98*	*	***		*37*	*13*
07-80007	*AUDIT OF RATHEON E-SYSTEMS, FALLS CHURCH, VA, DIRECT LOAN SERVICING CONTRACT CLOSE-OUT PROPOSAL DATED FEBRUARY 20, 1998*	*VA*	*07\10\98*	*2,782,218*	***		*37*	*44*
11-80013	*REVIEW OF GAPS SECURITY*	*DC*	*09/30/98*	*	***		*37*	*12*
	OFFICE OF THE DEPUTY SECRETARY							
17-70007	*MOVING TOWARDS A RESULTS-ORIENTED ORGANIZATION: A REPORT ON ED'S IMPLEMENTATION OF THE RESULTS ACT*	*DC*	*09/24/98*	*	***		*37*	*14*
	OFFICE OF BILINGUAL EDUCATION AND MINORITY LANGUAGES AFFAIRS							
04-60152	*REVIEW OF MONITORING CONTROLS USED TO ENSURE FULFILLMENT OF TITLE VII BILINGUAL EDUCATION GRANT PROGRAM OBJECTIVES*	*DC*	*06/30/97*	*	***		*35*	*17*

NOTES

* Non-monetary findings only
** Not individually written up
*** Information not provided by program office.

REASON CODES FOR REPORTS OVER SIX MONTHS OLD

01 - Administrative delays
02 - Delay in receiving auditee comments or additional information from auditee
03 - Delay in receiving additional information from non-federal auditor.
04 - Lack of staff
05 - Cooperative Audit Resolution and Oversight Initiative (CAROI) pilot state

INVESTIGATION SERVICES
CUMULATIVE PROSECUTIVE ACTIONS

DEFENDANT/ SUBJECT	INDICTED/ INFORMATION	CONVICTED	SENTENCED	CIVIL MATTERS	ADJUDICATED VALUE
SCHOOL CASES					
Bates, Garrit	■	X	X		$164,894
Berger, Benjamin	■	X			
Elbaum, Jacob	■	X			
Goldstein, David	■	X			
Stern, Kalmen	■	X			
Boorman, Guyla Jane	■	■	X		$1,907
Burgos-Rodriguez, Cristino	■	■	X		$180,351
Cefaratti, Frank	■	X			
Cefaratti - Diaz, Carole	X				
Malavet, Gloria	X	X			
Perez, Modesta	X	X			
Cline, Charlotte	■	■	X		$1,004
Sosa Funes, Jose	X				
Kuhn, Katherine	X				
Emco Investment, Inc	X				
Emory College of PR	X				
Tulip, Inc	X				
Jensen, Susan	X	X			
Lybrand, Shirley	■	■	X		$5,592
Nelson, Steven	X				
Nelson, Frances	X				
Purdie, Beverly	■	■	X		$117,729
Reese, Robbie	X	X	X		
Roth, Charles	■	■	X		
Sealed Case	■	X	X		$1,130,883

■ = Action reported in previous period.
X = Action reported in current period.

INVESTIGATION SERVICES
CUMULATIVE PROSECUTIVE ACTIONS

DEFENDANT/ SUBJECT	INDICTED/ INFORMATION	CONVICTED	SENTENCED	CIVIL MATTERS	ADJUDICATED VALUE
		Total Value School Cases:			**$1,602,330**
CONSULTANT CASES and CLIENT CASES					
Larkin, Denise	■	■	X		$1,700,000
Molitor, Michael	X	X			
Amey, Tisha				X	$1,800
Bean, Trisha				X	$8,610
Crump, Christina				X	$3,450
Drury, Sarah				X	$4,000
Dulac, Sean				X	$8,193
Figueroa, Karla				X	$2,000
Franklin, Allisha				X	$20,475
Garcia, Patrick				X	$5,760
Gorman, Jason				X	$1,720
Gorman, Julie				X	$3,280
Heath, Corrience				X	$3,100
Holmes, Ryan				X	$6,445
Hughes, Sammie				X	$9,920
Irwin, Charles				X	$8,070
Jones, Asenath				X	$28,680
Little, Chris				X	$4,810
McGraw, Shannon				X	$6,200
Morrison, Melanie				X	$5,510
Morrison, Steven				X	$2,690
Moyer, Brooke				X	$4,140
Moyer, Matthew				X	$1,832
Neal, Amy				X	$6,160

■ = Action reported in previous period.
X = Action reported in current period.

INVESTIGATION SERVICES
CUMULATIVE PROSECUTIVE ACTIONS

DEFENDANT/ SUBJECT	INDICTED/ INFORMATION	CONVICTED	SENTENCED	CIVIL MATTERS	ADJUDICATED VALUE
Perkins, Tamiko				X	$13,000
Phillips, Nathan				X	$1,000
Quire, Beverly				X	$9,080
Richards, Janell				X	$14,355
Runzi, Jennifer				X	$4,600
Simmers, Adam				X	$2,500
Sledge, Diana				X	$4,920
Stanley, Marisa				X	$3,400
Todd, Regina				X	$6,705
Wilson, Trent				X	$4,000
		Total Value Consultant Cases:			**$1,910,405**
FOREIGN STUDY FFEL PROJECT					
Doyley, Robert	■	X	X		$70,477
Doyley, Rochelle	■	X	X		$17,760
Glenn, Lamart	X				
Brandy, Howard	X				
Dalton, Frederick	X				
Metellus, Jacques	■	X			
Roberson, Gail	■	X	X		$18,500
		Total Value Foreign Study FFEL Cases:			**$106,737**
NON SFA CASES					
Bad Wound, John	■	X	X		$2,657,032
Banuelos, Daniel	■	■	X		$114,470

■ = Action reported in previous period.
X = Action reported in current period.

INVESTIGATION SERVICES
CUMULATIVE PROSECUTIVE ACTIONS

DEFENDANT/ SUBJECT	INDICTED/ INFORMATION	CONVICTED	SENTENCED	CIVIL MATTERS	ADJUDICATED VALUE
LaBianca, Daniel	X	X			
		Total Value Non-SFA Cases:			**$2,771,502**
SFA RECIPIENT CASES					
Alams, Humphrey	X				
Anderson, Derek	X				
Bearpaw, Theresa	■	■	X		$37,061
Braxton, Tamika	X	X			
Easton, Michael	■	X			
Griffin, Ricky	■	■	X		$16,000
Nwoke, Anthony J.	■	X	X		$9,426
Pantera, James	X	X			
Perrin, Gloria	X				
Qurtom, Helmy	■	■	X		$118,932
Kurtom, Sawsan	■	■	X		--
Rafca, Rafael	■	■	X		$268,000
Moran, Edgardo	X	X			
Silva, Kary	■	X			
Valdes, Leticia	■	■	X		$9,193
Smith, Laura	■	X	X		$35,947
Lee, Roosevelt	■	■	X		--
Tshimanga Kolanga, Jean-Claude	■	X			
Tshimanga, Casondra	■	X			
Wells, Kenneth	X				
		Total Value SFA Recipient Cases:			**$494,559**

■ = Action reported in previous period.
X = Action reported in current period.

INVESTIGATION SERVICES
CUMULATIVE PROSECUTIVE ACTIONS

DEFENDANT/ SUBJECT	INDICTED/ INFORMATION	CONVICTED	SENTENCED	CIVIL MATTERS	ADJUDICATED VALUE
CIVIL CASES					
Bishop, James, etal				X	$250,000
Jordan, Tonya				X	$18,349
Rasheed, Adnan				X	$8,680
State University of West Georgia				X	$21,231
Whitney National Bank				X	$6,105,106
		Total Value Civil Cases:			**$6,403,366**
EMPLOYEE CASES					
Cole, Loyce	X	X	X		$13,050
Warren, Jacqueline	■	X	X		$23,181
		Total Value Employee Cases:			**$36,231**

■ = Action reported in previous period.
X = Action reported in current period.

STATISTICAL PROFILE

October 1, 1998 — March 31, 1999

OIG AUDIT REPORTS ISSUED	12
Questioned Costs	$ 6,656,342
Unsupported Costs	$ 0
Recommendations for Better Use of Funds	$ 0
OTHER OIG PRODUCTS *(Action Memoranda, Information Reports, Special Studies, and Inspections)*	29
OIG AUDIT REPORTS RESOLVED BY PROGRAM MANAGERS	6
Questioned Costs Sustained	$ 2,599,709
Unsupported Costs Sustained	$ 36,138
Additional Disallowances Identified by Program Managers	$ 0
Management Commitment to Better Use of Funds	$ 0
INVESTIGATIVE CASE ACTIVITY	
Cases Opened	120
Cases Closed	111
Cases Active at End of Period	317[1]
Cases Referred for Prosecution	44
—Accepted	31
—Declined	13
INVESTIGATION RESULTS	
Indictments/Informations	28[2]
Convictions/Pleas	33
Fines Ordered	$ 57,837
Restitutions Ordered	$ 6,709,254
Civil Settlements/Judgments (number)	63[3]
Civil Settlements	$ 6,718,201[4]
Civil Judgments	$ 101,282[5]
Collections	$ 6,963,626[6]

[1] Includes 9 cases that were not reported in our last *Semiannual Report*.
[2] Includes 2 actions that were not reported in our last *Semiannual Report*.
[3] Included 22 actions that were not reported in our last *Semiannual Report*.
[4] Includes $132,453 not reported in our last *Semiannual Report*.
[5] Includes $48,858 not reported in our last *Semiannual Report*.
[6] Includes $48,858 not reported in our last *Semiannual Report*.

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___ A05-80008	___ A11-70002	___ A05-90005
___ A05-90013	___ A11-70010	___ A07-80017
___ A07-70008	___ S13-70001	___ A11-80011

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